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LEGISLATIVE HISTORY

Public Law 250--77th Congress

Chapter 412--1st Session

H. R. 5417

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DIGEST OF PUBLIC LAW 250

REVENUE ACT OF 1941. Creates a committee, composed of three members of the Senate Committee on Finance, three members of the Senate Committee on Appropriations, three members of the House Committee on Ways and Means, three members of the House Committee on Appropriations, the Secretary of the Treasury, and the Director of the Bureau of the Budget, to investigate Federal expenditures with a view to recommending elimination or reduction of those which are deemed to be non-essential, and to report to the President and Congress. Authorizes the committeeto utilize the services, information facilities, and personnel of Government agencies.

Increases income taxes from 4 percent to 10 percent in the lower brackets and fixes the top rate at 81 percent instead of 77 percent. Reduces the personal exemption from $2000 to $1500 for married persons and from $800 to $750 for single persons. Permits persons with net income of not over $3000 to file an abbreviated return showing automatically the amount of tax. Makes the defense tax permanent. Increases corporation excise taxes on various commodities, including alcoholic beverages, tires and tubes, motor vehicles, refrigerators, telephones, sporting goods, electric appliances, photographic apparatus, rubber articles, furs, and, except for the Government, transportation rates.

INDEX AND SUMMARY OF HISTORY ON H. R. 5417

April 24, 1941	Hearings: House, H. R. 5417, Vol. 1
May 12, 1941	Hearings: House, H. R. 5417, Vol. 2.
July 24, 1941	Rep. Doughton introduced H. R. 5417 which was referred to the House Committee on Ways and Means. Print of the bill and introduced and reported. House Committee reported H. R. 5417 without amendment. House Rept. 1040.
July 28, 1941	House Rules Committee reported H. Res. 279 for the consideration of H. R. 5417. House Rept. 1065. Print of the Resolution.
July 30, 1941	House Reles Committee reported H. Res. 280 for the consideration of H. R. 5417. House Rept. 1076. Print of the Resolution.
	House began debate.
July 31, 1941	Debate continued.
August 1, 1941	Debate continued.
August 4, 1941	Debate continued. Passed House with amendments.
August 5, 1941	Print of the bill as referred to the Senate Committee on Finance.
August 7, 1941	Amendment proposed by Senator Overton.
August 15, 1941	Amendment proposed by Senator Bone.
September 2, 1941	Senate Committee reported H. R. 5417 with amendments. Senate Rept 673. Pts. 1, 2, and 3. Print of the bill as reported.
September 3, 1941	Senate Rept. 673, Pt. 4. Amendments proposed by Senators Vandenberg, Downey and La Follette.
	Senate began debate.
September 4, 1941	Debate continued. Amendments proposed by Senators Butler, Bailey, Overton, and Adams.
September 5, 1941	Debate concluded. Passed the Senate with amendments. Senate Conferees appointed. Print of the bill with the amendments of the Senate numbered.
September 15, 1941	House Conferees appointed.
	House received the Conference Report. House Rept. 1203.

September 16, 1941	House agreed to the Conference Report.
September 17, 1941	Senate received and agreed to the Conference Report.
September 20, 1941	Approved. Public Law 250.

77TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 1040

THE REVENUE BILL OF 1941

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U.S. DEPARTMENT OF AGRICULTURE

JULY 24, 1941.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. DOUGHTON, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H. R. 5417]

The Committee on Ways and Means, to whom was referred the bill (H. R. 5417) to provide revenue and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

NEED FOR THE LEGISLATION

The united effort on the part of the American people adequately to defend this Nation has placed a tremendous financial burden upon the Government.

Upon his appearance before your committee on April 24, 1941, the Secretary of the Treasury stated that as of that date the appropriations, authorizations, and recommendations for the national defense program totalled $39,000,000,000, including the lease-lend appropriations. According to the estimate of the Bureau of the Budget as of June 1, 1941, this figure had then risen to $43,000,000,000. It is now set at approximately $50,000,000,000. Thus, since April, the scope of our defense program has been expanded by $11,000,000,000.

Upon that occasion, the Secretary further stated that actual expenditures for all Federal purposes for the fiscal year 1942 were then expected to be $19,000,000,000. It is now anticipated that the expenditures for the fiscal year 1942 will exceed $22,000,000,000. The Budget message of January 1941 estimated that the deficit for the fiscal year 1942 would be $9,200,000,000. The Bureau of the Budget, as of June 1, 1941, set this figure at $12,800,000,000. These figures do not reflect any additional revenue from proposed tax legislation.

Your committee bill is designed to yield a net additional revenue in excess of $3,500,000,000 for a year of full operation. For the fiscal year 1942, it is estimated to yield about $1,900,000,000. Thus, the net deficit of $12,800,000,000, predicted without regard to this bill, will be reduced to $10,900,000,000.

The bill with the present law will meet about 60 percent of the anticipated expenditures, leaving 40 percent to be met by borrowing. During the World War only one-third of the expenditures were met by taxes and two-thirds by borrowing.

In recent years, your committee has recommended and the Congress has enacted legislation substantially increasing our tax revenues. These increases were designed to bring our receipts and expenditures into closer alignment. Except for the enormous expenditures made necessary by our defense program our goal would have been achieved. For example, for the fiscal year 1941 our total receipts aggregated $7,607,000,000 and our total expenditures were $12,710,000,000, leaving a deficit of $5,103,000,000. Of the total expenditures of $12,710,000,000, $6,048,000,000 were for national defense. Thus, had defense expenditures been at normal levels, a small deficit or perhaps no deficit for 1941 would have occurred.

The bill is unprecedented in the amount of revenue it is designed to provide. It lays a substantially increased burden upon the American people. But there is convincing evidence that this burden will be borne cheerfully in the light of the overwhelming importance of national defense to the continued freedom and security of the United States. It is believed that the risk to life and property from an inadequate preparedness would make even a much heavier burden attractive by comparison.

In its deliberations on this measure, it has been your committee's aim and desire to distribute the additional tax burden as equitably as possible among the several classes of taxpayers. Due consideration has also been given to the economic and social effects of the increased levies. There was continually in mind the need for keeping to a minimum, consistent with our defense efforts, any disruption of our economy, and, at the same time, supplying a needed restraint upon inflationary tendencies.

Your committee's principal aim in this bill, however, as in all tax legislation, is the procurement of revenue.

Estimates of Revenue

Of the more than $3,500,000,000 to be raised by the bill, nearly $2,475,000,000 is to be derived from corporate and individual income taxpayers; $152,000,000 from estate and gift taxpayers; and about $900,000,000 from excise taxes.

The following table sets out in detail the items contained in the bill and the expected revenue therefrom. These figures, supplied by the Treasury Department, contemplate a year of full operation.

Estimated increase or decrease (−) in revenue yield due to revenue bill of 1941

Tax	Proposed change	Estimated increase or decrease (−) over present law [1]
		Millions of dollars
Income taxes:		
Corporation:		
Normal tax	Allow excess profits tax as a deduction in computing normal tax net income; increase withholding rate and increase income tax rate on nonresident alien individuals and corporations.	−520.1
Surtax	5 percent on surtax net income not in excess of $25,000; 6 percent on surtax net income in excess of $25,000.	644.7
Excess-profits tax	Revise basis; increase rates 10 percentage points in each bracket.	1,198.3
Total		1,322.9
Individual		1,152.0
Total income taxes		2,474.9
Miscellaneous internal revenue:		
Capital stock tax	Increase rate from $1.10 to $1.25	22.3
Estate tax	Increase rates	135.9
Gift tax	do	16.0
Total		174.2
Manufacturers' and retailers' excise taxes:		
Distilled spirits	Increase rates $1 per gallon	[2] 122.3
Wines	Increase rates	[2] 5.0
Passenger automobiles, parts, and accessories.	Double rates; revise base	74.9
Automobile trucks, busses, and trailers.	do	16.1
Tires and tubes	Double rates	[2] 44.6
Refrigerators, refrigerating apparatus, and air-conditioners.	Increase rates from 5½ percent to 10 percent; revise base.	21.0
Matches	2 cents per 1,000, except fancy wooden or colored wooden (unchanged).	8.2
Playing cards	Increase rate from 11 cents to 13 cents	1.0
Radio receiving sets and parts.	Increase rate from 5½ percent to 10 percent; revise base.	9.4
Phonographs and phonograph records.	10 percent of manufacturers' sales price	4.5
Musical instruments	do	3.6
Sporting goods	do	8.5
Luggage	do	4.5
Electrical appliances	do	12.6
Photographic apparatus	do	12.4
Electric signs	do	2.7
Business and store machines	do	21.0
Rubber articles	do	21.3
Washing machines (commercial).	do	1.1
Optical equipment	do	1.0
Soft drinks	Various rates on bottled soft drinks, finished or fountain sirups and carbonic acid gas.	22.6
Jewelry, etc	10 percent of retailers' sales price	56.2
Furs	do	20.7
Toilet preparations	10 percent of retailers' sales price	19.7
Total manufacturers' and retailers' excise taxes.		514.9
Miscellaneous taxes:		
Admissions	Reduce exemption to 9 cents and eliminate certain present law exemptions. Exempt service men in uniform when admitted free, or at reduced rates on reduced admission charge.	60.0
Cabarets, roof gardens, etc	5 percent of total bill	2.0
Club dues	Reduce exemption to $10 and tax certain privilege fees.	2.8

[1] Full year effect. Estimates for corporation and individual income taxes and the gift tax are based on income levels estimated for calendar year 1941; all other estimates are based on income levels estimated for fiscal year 1942.

[2] Excluding nonrecurring floor stocks taxes collectible only in fiscal year 1942—distilled spirits, $38.0 millions; wines, $1.0 million; tires and tubes, $6.7 millions.

Estimated increase or decrease (−) in revenue yield due to revenue bill of 1941—Con.

Tax	Proposed change	Estimated increase or decrease (−) over present law
Miscellaneous internal revenue—Con.		*Millions of dollars*
Miscellaneous taxes:—Con.		
Safe-deposit boxes	Increase rate from 11 percent to 20 percent	1.7
Telephone, telegraph, radio, and cable facilities, leased wires, etc.	On dispatches, messages, or conversations for which the charge is 25 cents or more, 5 cents for each 50 cents or fraction thereof; revise definition of leased wires.	26.6
Telephone bill	5 percent of total bill excluding messages subject to tax above.	43.6
Transportation of persons	5 percent of amount paid; 35-cent exemption	36.5
Use of motor vehicles and boats.	$5 per motor vehicle or boat per year with graduated rates on yachts.	160.2
Bowling alleys, and billiard and pool tables.	$15 per alley, billiard or pool table per year	3.4
Coin-operated amusement and gaming devices.	$25 per device per year	8.9
Radio broadcasting	Various rates based on amount of net time sales; stations with net time sales of less than $100,000 per year exempt.	12.5
Outdoor advertising	Various rates determined by size of sign	7.0
Total miscellaneous taxes		365.2
Total excise and miscellaneous taxes.		880.1
Total miscellaneous internal revenue.		1,054.3
Total		3,529.2

Summary of Principal Features

I. INDIVIDUAL INCOME TAX

1. TAXABLE YEARS

The changes made by the bill with respect to the individual income tax are effective with respect to taxable years beginning after December 31, 1940.

2. DEFENSE TAX MADE PERMANENT

The 10-percent defense tax, imposed for 5 years by section 15 of the Internal Revenue Code, is made permanent.

3. PERSONAL EXEMPTIONS AND CREDITS FOR DEPENDENTS

Under existing law a person though unmarried who supports in one household one or more other persons, actually dependent upon him for their chief support, is deemed to be the head of a family and is allowed an exemption of $2,000, plus $400 for each person dependent upon him who is less than 18 years of age or is incapable of self-support. It is felt that such person should not be allowed to obtain this double benefit on account of a dependent, namely $1,200 (the difference between a single person's exemption of $800 and that of $2,000 for the head of a family), plus $400, or $1,600 in all.

Consequently, the bill provides that a dependent counted to constitute an individual as the head of a family cannot be counted again as a dependent for purposes of the $400 credit.

The individual income-tax exemptions were reduced last year from $1,000 to $800 for a single person and from $2,500 to $2,000 for a married couple. A married person's exemption is now as low as it has ever been since the Federal income tax was adopted in 1913. During the period 1917–20 it was $2,000. A single person's exemption is now lower than it has ever been. During the periods 1917–24 and 1932–39 it was $1,000. The present exemptions on a weekly basis are $15 for a single person and $38 for a married person. Your committee feels that a further reduction in these exemptions is not warranted at this time, especially in view of the rising cost of living.

It should be remembered that because an individual is exempt from the individual income tax does not mean that he is free from taxation. The revenue system includes many taxes which directly and indirectly burden these lower income classes. In this connection it is important to consider, not the Federal taxes alone, but also the State and local taxes which on the whole are less progressive than the taxes imposed by the Federal Government. Furthermore, several of the excise taxes will in substantial part fall upon individuals not reached by the income tax. Moreover, the proposed use tax on automobiles will result in collecting at least $5 from many individuals who are not subject to the income tax. Statistics indicate that over 50 percent of the passenger automobiles are owned by individuals with incomes of $2,000 or less and over 18 percent are owned by individuals with incomes of $1,000 or less.

All the income taxpayers have had their income taxes increased by increases in rates. A reduction in the exemptions would impose upon this same group still further income-tax burdens. The additional revenue resulting from reduced exemptions comes almost entirely, not from new taxpayers, but from individuals already subject to the income tax.

It should be noted that while the personal exemptions are not decreased by this bill, a large number of persons will pay income taxes under it who do not pay under present law. The amount of income exempt from taxation would, in effect, be lowered under the surtax rate schedule adopted by the committee since the surtax is applicable to the first dollar of income after personal exemption and credit for dependents. The first $88 above exemptions of a single person without dependents and the first $222 above exemptions of a married person without dependents, now free from the normal tax on account of the earned income credit, become subject to surtax.

4. TREATMENT OF INCOME FROM NON-INTEREST-BEARING SECURITIES SOLD AT A DISCOUNT

Under its program for financing the national-defense expenditures, the Treasury Department is offering several types of securities which are noninterest bearing but are issued at a discount. These securities are redeemable at a fixed amount, increasing at stated intervals. Taxpayers on the accrual basis report and pay tax on this income as it accrues. The bill extends to taxpayers on the cash basis the privilege of electing this same treatment. If they so elect, the income will be reported gradually as it accrues and will not all fall into the taxable year in which the security is redeemed, as would be the case under existing law.

5. INDIVIDUAL SURTAX

While no change is made in the individual normal-tax rate, the surtax rates are increased substantially. In addition, the surtax rates apply to the entire surtax net income, the first $4,000 of which is free from surtax under the present law. In order clearly to demonstrate the effect of this change, an example showing the computation of the tax under the rates of the bill is given. It may also be of value to show the determination of net income, surtax net income, and normal-tax net income.

A married man with one dependent, having the indicated items of income and deductions, would compute his tax base and the tax thereon as follows:

Items of gross income:			
Salary	$7,000		
Dividends	3,200		
Partially tax-exempt interest	300		
Other interest (fully taxable)	500		
Gross income		$11,000	
Items of deductions:			
Taxes	$600		
Interest	100		
Losses (not capital losses)	775		
Contributions	125		
Total deductions		1,600	
Net income		9,400	
Credits against net income for surtax purposes:			
Personal exemption	$2,000		
Credit for dependent	400		
		2,400	
Surtax net income		7,000	
Surtax			$630
Net income		$9,400	
Credits against net income for normal tax purposes:			
Personal exemption	$2,000		
Credit for dependent	400		
Earned income credit (10 percent of earned income or net income, whichever is less)	700		
Partially tax-exempt interest	300		
		3,400	
Normal tax net income		6,000	
Normal tax (4 percent of $6,000)			240
Total normal and surtax			870
10 percent defense tax			87
Total normal, surtax and defense tax			957

It will be noted that the amount subject to surtax is greater than that subject to normal tax. This is true since the credits against net income for normal-tax purposes are greater than those allowed for surtax purposes. The bill makes no change in this respect, but it does apply the surtax to the entire surtax net income while under existing law the first $4,000 is not taxed.

The following table shows a comparison of the proposed surtax rates and cumulative surtax with those under existing law:

Surtax net income classes	Surtax rates		Cumulative surtax on higher amount shown in bracket	
	Present law	Proposed law	Present law	Proposed law
	Percent	*Percent*		
$0,000 to $2,000		5		$100
$2,000 to $4,000		8		260
$4,000 to $6,000	4	11	$80	480
$6,000 to $8,000	6	15	200	780
$8,000 to $10,000	8	19	360	1,160
$10,000 to $12,000	10	22	560	1,600
$12,000 to $14,000	12	25	800	2,100
$14,000 to $16,000	15	28	1,100	2,660
$16,000 to $18,000	18	31	1,460	3,280
$18,000 to $20,000	21	33	1,880	3,940
$20,000 to $22,000	24	36	2,360	4,660
$22,000 to $26,000	27	39	3,440	6,220
$26,000 to $32,000	30	42	5,240	8,740
$32,000 to $38,000	33	45	7,220	11,440
$38,000 to $44,000	36	48	9,380	14,320
$44,000 to $50,000	40	50	11,780	17,320
$50,000 to $60,000	44	53	16,180	22,620
$60,000 to $70,000	47	55	20,880	28,120
$70,000 to $80,000	50	57	25,880	33,820
$80,000 to $90,000	53	59	31,180	39,720
$90,000 to $100,000	56	61	36,780	45,820
$100,000 to $150,000	58	62	65,780	76,820
$150,000 to $200,000	60	63	95,780	108,320
$200,000 to $250,000	62	64	126,780	140,320
$250,000 to $300,000	64	66	158,780	173,320
$300,000 to $400,000	66	68	224,780	241,320
$400,000 to $500,000	68	70	292,780	311,320
$500,000 to $750,000	70	71	467,780	488,820
$750,000 to $1,000,000	72	72	647,780	668,820
$1,000,000 to $2,000,000	73	73	1,377,780	1,398,820
$2,000,000 to $5,000,000	74	74	3,597,780	3,618,820
Over $5,000,000	75	75		

The following tables compare the tax payable by individuals of designated status on specified net incomes, under existing law and under the bill; also the effective rates of tax, expressed as percentages of tax to net income:

Comparison of individual income tax on specified net incomes (all income earned) under existing law, and proposed revenue bill of 1941

Net income	Single person		Married persons					
			No dependents		2 dependents		4 dependents	
	Present law	Proposed bill	Present law	Proposed bill	Present law	Proposed bill	Present law	Proposed bill
$800								
$900	$0.44	$5.94						
$1,000	4.40	15.40						
$1,100	8.36	24.86						
$1,200	12.32	34.32						
$1,300	16.28	43.78						
$1,400	20.24	53.24						
$1,500	24.20	62.70						
$1,600	28.16	72.16						
$1,700	32.12	81.62						
$1,800	36.08	91.08						
$1,900	40.04	100.54						
$2,000	44.00	110.00						
$2,500	63.80	157.30	$11.00	$38.50				
$3,000	83.60	211.20	30.80	85.80		$11.00		
$4,000	123.20	338.80	70.40	180.40	$35.20	101.20		$22.00
$5,000	171.60	473.00	110.00	308.00	74.80	202.40	$39.60	116.60
$6,000	255.20	633.60	149.60	435.60	114.40	330.00	79.20	224.40
$7,000	343.20	803.00	233.20	596.20	162.80	464.20	118.80	352.00
$8,000	448.80	1,007.60	316.80	756.80	246.40	624.80	176.00	492.80
$9,000	558.80	1,221.00	422.40	961.40	334.40	794.20	259.60	653.40
$10,000	686.40	1,469.60	528.00	1,166.00	440.00	998.80	352.00	831.60
$15,000	1,476.20	2,934.80	1,258.40	2,545.40	1,117.60	2,290.20	990.00	2,054.80
$20,000	2,666.40	4,826.80	2,336.40	4,338.40	2,142.80	4,030.40	1,949.20	3,722.40
$25,000	4,252.60	7,073.00	3,843.40	6,505.40	3,570.60	6,127.00	3,317.60	5,768.40
$30,000	6,063.20	9,543.60	5,614.40	8,936.40	5,315.20	8,531.60	5,016.00	8,126.80
$50,000	14,709.20	20,715.20	14,128.40	20,002.40	13,741.20	19,527.20	13,354.00	19,052.00
$60,000	19,954.00	26,958.80	19,320.40	26,206.40	18,893.00	25,704.80	18,475.60	25,203.20
$80,000	31,451.20	40,123.60	30,738.40	39,318.40	30,263.20	38,781.60	29,788.00	38,244.80
$100,000	44,268.40	54,168.40	43,476.40	53,310.40	42,948.40	52,738.40	42,420.40	52,166.40
$150,000	78,350.80	89,012.40	77,532.40	88,299.60	76,986.80	87,824.40	76,441.20	87,349.20
$250,000	147,576.40	159,748.00	146,863.60	159,013.60	146,388.40	158,524.00	145,913.20	158,034.40
$500,000	330,933.20	347,604.80	330,155.60	346,805.60	329,637.20	346,272.80	329,118.80	345,740.00
$750,000	522,418.80	541,347.60	521,619.60	540,537.60	521,086.80	539,997.60	520,554.00	539,457.60
$1,000,000	718,404.40	737,340.40	717,583.60	736,519.60	717,036.40	735,972.40	716,489.20	735,425.20
$2,000,000	1,511,397.20	1,530,333.20	1,510,565.60	1,529,501.60	1,510,011.20	1,528,947.20	1,509,456.80	1,528,392.80
$5,000,000	3,917,390.00	3,936,326.00	3,916,547.60	3,935,483.60	3,915,986.00	3,934,922.00	3,915,424.40	3,934,360.40

Comparison of effective rates of individual income tax on specified net incomes (all income earned) under existing law, and proposed revenue bill of 1941

Net income	Single person		Married persons					
			No dependents		2 dependents		4 dependents	
	Present law	Proposed bill	Present law	Proposed bill	Present law	Proposed bill	Present law	Proposed bill
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
$800	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
$900	.048	.660	.000	.000	.000	.000	.000	.000
$1,000	.440	1.540	.000	.000	.000	.000	.000	.000
$1,100	.760	2.260	.000	.000	.000	.000	.000	.000
$1,200	1.026	2.860	.000	.000	.000	.000	.000	.000
$1,300	1.252	3.367	.000	.000	.000	.000	.000	.000
$1,400	1.445	3.802	.000	.000	.000	.000	.000	.000
$1,500	1.613	4.180	.000	.000	.000	.000	.000	.000
$1,600	1.760	4.510	.000	.000	.000	.000	.000	.000
$1,700	1.889	4.801	.000	.000	.000	.000	.000	.000
$1,800	2.004	5.060	.000	.000	.000	.000	.000	.000
$1,900	2.107	5.291	.000	.000	.000	.000	.000	.000
$2,000	2.200	5.500	.000	.000	.000	.000	.000	.000
$2,500	2.552	6.292	.440	1.540	.000	.000	.000	.000
$3,000	2.786	7.040	1.026	2.860	.000	.366	.000	.000
$4,000	3.080	8.470	1.760	4.510	.880	2.530	.000	.550
$5,000	3.432	9.460	2.200	6.160	1.496	4.048	.792	2.915
$6,000	4.253	10.560	2.493	7.260	1.906	5.500	1.320	3.740
$7,000	4.902	11.471	3.331	8.517	2.325	6.631	1.697	5.025
$8,000	5.610	12.595	3.960	9.460	3.080	7.810	2.200	6.160
$9,000	6.208	13.566	4.693	10.682	3.715	8.824	2.884	7.260
$10,000	6.864	14.696	5.280	11.660	4.400	9.988	3.520	8.316
$15,000	9.841	19.565	8.389	16.969	7.450	15.268	6.600	13.698
$20,000	13.332	24.134	11.682	21.692	10.714	20.152	9.746	18.612
$25,000	17.010	28.292	15.373	26.021	14.282	24.508	13.270	23.073
$30,000	20.210	31.812	18.714	29.788	17.717	28.438	16.720	27.089
$50,000	29.418	41.430	28.256	40.004	27.482	39.054	26.708	38.104
$60,000	33.256	44.931	32.200	43.677	31.496	42.841	30.792	42.005
$80,000	39.314	50.154	38.423	49.148	37.829	48.477	37.235	47.806
$100,000	44.268	54.168	43.476	53.310	42.948	52.738	42.420	52.166
$150,000	52.233	59.341	51.688	58.866	51.324	58.549	50.960	58.232
$250,000	59.030	63.899	58.745	63.605	58.555	63.409	58.365	63.213
$500,000	66.186	69.520	66.031	69.361	65.927	69.254	65.823	69.148
$750,000	69.665	72.179	69.549	72.071	69.478	71.999	69.407	71.927
$1,000,000	71.840	73.734	71.758	73.651	71.703	73.597	71.648	73.542
$2,000,000	75.569	76.516	75.528	76.475	75.500	76.447	75.472	76.419
$5,000,000	78.347	78.726	78.330	78.709	78.319	78.698	78.308	76.687

6. TAX ON NONRESIDENT ALIEN INDIVIDUALS

The tax on nonresident alien individuals not engaged in trade or business within the United States and not having an office or place of business therein is increased from 16½ percent (15 percent plus 1½ percent defense tax) to 27½ percent (25 percent plus 2½ percent defense tax). The provisions for withholding of tax at the source are amended correspondingly to increase the withholding rate from 16½ to 27½ percent. These increased rates are in proportion to the increased rates on American citizens and residents.

The rates generally applicable to nonresident aliens do not apply where they would infringe a treaty obligation. Under existing law these rates may be reduced to not less than 5 percent as applied to residents of a contiguous country if so provided by treaty. The bill authorizes a similar reduction in the case of residents of any country in North, Central, or South America, the West Indies, or Newfoundland. The extension of this favorable treatment is a part of the program toward improving relations with our sister nations in the Western Hemisphere.

7. JOINT RETURN OF HUSBAND AND WIFE LIVING TOGETHER

The Provision

The bill as reported by your committee requires husband and wife living together at any time during their joint taxable year to report their income in a single joint return and compute the tax on their aggregate income. A husband and wife are considered living together in any case where they have not separated with intent to abandon permanently the marital relationship, whether or not the husband makes his home at one place and the wife at another place. If one of the spouses has no income, deduction, or credit appearing on the return, such spouse is not required to sign or swear to such return. In the case of husband and wife making a joint return, the net income of each up to and including $3,000 shall in every case be considered earned income and in the case of each the compensation for services actually rendered may be considered earned income to the extent of $14,000. The earned net income of each is to be added together and 10 percent of such earned net income but not in excess of 10 percent of the aggregate net income is allowable as a credit for the purposes of the normal tax. Either spouse may elect to have the liability for the tax apportioned between them in a ratio which a tax computed upon their separate income bears to the sum of such taxes computed upon their separate incomes.

In computing the separate tax for the purpose of the allocation, each spouse is deemed to have a personal exemption of $1,000 and the credit for dependents is to be computed as if husband and wife were single persons. The following example will show how the section operates:

Husband's gross income		$11,000.00
Wife's gross income		114,000.00
Total gross income		125,000.00
Total deductions		15,000.00
Combined net income		110,000.00
Credits:		
Earned income	$2,400.00	
Personal exemption	2,000.00	
Total credits		4,400.00
Net income in excess of credits for normal tax purpose		105,600.00
Normal tax at 4 percent		4,224.00
Surtax on $108,000		50,780.00
Total normal and surtax		55,004.00
Plus defense tax, 10 percent of ($54,996) difference between net income and total normal and surtax, or		5,499.60
Total tax under committee bill		60,503.60
Allocation of tax liability:		
Husband's tax computed separately:		
Gross income		11,000.00
Deductions		1,000.00
Net income		10,000.00

Allocation of tax liability—Continued.		
Husband's tax computed separately—Continued.		
Credits:		
Earned income	$1,000.00	
Personal exemption	1,000.00	
Total credits		$2,000.00
Net income in excess of credits for normal tax purpose		8,000.00
Normal tax at 4 percent		320.00
Surtax on $9,000		970.00
Total normal and surtax		1,290.00
Plus 10-percent defense tax		129.00
Total tax, husband computed separately		1,419.00
Wife's tax computed separately:		
Gross income		114,000.00
Deductions		14,000.00
Net income		100,000.00
Credits:		
Earned income	$1,400.00	
Personal exemption	1,000.00	
Total credits		2,400.00
Net income in excess of credits for normal tax purpose		97,600.00
Normal tax at 4 percent		3,904.00
Surtax on $99,000		45,210.00
Total normal and surtax		49,114.00
Plus 10 percent defense tax		4,911.40
Total tax, wife computed separately		54,025.40
Combined tax of husband and wife computed separately		55,444.40
Percent of combined tax (separate returns):		
Husband, 2.559 percent.		
Wife, 97.441 percent.		
Husband's and wife's tax liability under joint return:		
Husband, 2.559 percent of $60,403.60		1,548.29
Wife, 97.441 percent of $60,403.60		58,955.31
Total tax under joint return		60,503.60

The joint taxable year does not include the taxable year in which the marriage took place. For example, if the spouses filed income tax returns on a calendar-year basis and married in 1941, a joint return would not be required until the calendar year 1942. The joint taxable year is automatically terminated upon divorce or legal separation. In the case of death, the surviving spouse and the decedent's personal representative are required to file a joint return for the full taxable year in which the death occurred.

Inequities of the present law

(1) *Entire income earned by one spouse.*—Under the present law, if the entire income is earned by the husband, the family is required to pay a greater tax than if the wife had contributed to the family income. For example, if the husband and wife had an income of $10,000

per year but it was all earned by the husband, the tax under the present law with the proposed rates in the bill will amount to $1,166. On the other hand, if $5,000 of the income was contributed by the wife, the total tax to be paid by the family under the present law with the proposed rates will be $880, or $440 by each spouse. These two families have exactly the same income, yet one will pay $286 more than the other. Since in most cases, the family income is contributed by the husband, the present law operates unjustly against the great majority of families in the country. The man whose wife has a separate income is in a better position than the man whose wife has no separate income. In the former case, he does not have to set aside as much of his earnings to provide for his wife as in the latter case, yet the existing law actually favors the more fortunate family.

(2) *Families living in different sections of the country.*—The present law permits a family living in one section of the country to pay a lesser tax than a family living in another section of the country. For example, if the husband is a resident of California and earns a salary of $10,000 a year, this salary is divided equally between husband and wife for income-tax purposes. On the other hand, if the husband was living in New York or some other non-community-property State, he is required to report his entire salary as his own for Federal-income tax purposes. The husband in the non-community-property State has no means of mitigating this burden, for the reason that the Supreme Court has held (*Lucas* v. *Earl*, 281 U. S. 111) that an assignment of income for personal services is not recognized for Federal income-tax purposes. In commenting upon this inequity, Mark Graves, Commissioner of Taxation and Finance, State of New York, stated in a letter to Congressman Reed, of New York, inserted in the joint hearings on tax evasion and avoidance, 1937, page 37:

> A family living in a non-community-property State, having an income of a certain size, should, in all fairness, contribute as much to the support of the Federal Government as does a like family with the same income in any other State.

(3) *Family receiving entire income from earnings.*—The present law also discriminates against a family living in a non-community-property State receiving all or the greater part of the income from earnings as contrasted with a family receiving all or the greater part of the income from investments. Husbands and wives frequently transfer property between each other, thus splitting up their income for tax purposes. As previously pointed out, an assignment of earned income is not recognized for Federal income-tax purposes.

(4) *Option to file separate returns.*—The present law by permitting husbands and wives to file separate returns or joint returns at their own option always operates to the disadvantage of the Government and in favor of the taxpayers. If each has income of any considerable size, each will ordinarily make a separate return, in order to reduce his income tax. If the husband and wife can so arrange their affairs that the wife is in receipt of a portion of the income, income taxes can by considerably reduced, especially in the case of the larger taxpayers. The lawbooks are filled with cases where the husband and wife have split up their incomes for the purpose of avoiding the progressive income-tax schedule.

(5) *Family partnerships, gifts and trusts.*—Certain husbands and wives not only split their income through the creation of trusts, or gifts, but also through the use of family partnerships. There have been cases in which such partnerships have been recognized, even though the wife did not contribute either capital or services to the partnership. The purpose of many of these partnerships is to split the family income into two parts. The large amount of gifts made, even after the gift tax went into effect in 1932, also indicates the effort on the part of many wealthy spouses to reduce their income taxes through family transfers. The following, taken from the statistics of income for 1938 and 1939, shows the large number of gifts transferred after the gift tax enacted in 1932 went into effect:

Year:	*Total gifts*
1932	$81, 389, 000
1933	241, 008, 000
1934	888, 753, 000
1935	2, 130, 514, 000
1936	482, 783, 000
1937	568, 109, 000
1938	399, 773, 000
	4, 792, 329, 000

It will be noted that during this 7-year period, the total gifts made amounted to $4,792,329,000. While there is no break-down of the number of these gifts, it seems clear that a large part of them were family transfers. There were undoubtedly also a great many gifts made during the period from the enactment of the first income tax in 1913 to June 2, 1932, the date of the present gift tax act. During this period, the only gift tax in effect was one with very slight rates applicable to the year 1924.

Advantages of the committee proposal

It is the opinion of your committee that division of income between husband and wife as a tax-saving device has no equitable basis. It results in an unequal distribution of the tax burden as between families similarly situated. The joint return proposal will overcome the inequities referred to and will result in a more equitable distribution of the tax burden. It appears proper to treat husbands and wives as taxable units for purposes of the Federal income tax. The proposal has the following virtues:

(1) It prevents the income-tax law from operating unfairly with respect to a family where all the income is received by one spouse as compared with a family where the income is received by both.

(2) It removes the discrimination under the present law against earned income in favor of investment income.

(3) It treats a family living in one part of the United States in the same manner as a family living in another part of the United States, thus removing the discrimination at present existing in favor of those residing in community-property States.

(4) It does not invade the rights of a married woman. It treats her exactly in the same manner as her husband for Federal tax purposes. It merely regards the marital community as the taxable unit instead of the individuals who make it up.

(5) The inherent property rights of the separate members of the taxable unit are in no way invaded. The proposal merely determines the amount of tax to be paid by the unit and permits the tax so determined to be apportioned on an equitable basis.

(6) It prevents the income tax from being avoided through interspouse transfers or partnerships. Property acquired by one spouse may be transferred to the other spouse mainly for the purpose of reducing the tax liability of the one who would otherwise have the greater income.

(7) It is not believed that the joint return will result in any increase in the divorce rate in the United States or adversely affect the morals of American families. A compulsory joint return in Great Britain has been required since 1914, and their divorce rate is not as high as in the United States.

The rate of divorces by each 1,000 of population in 1935 was, in the United States, 1.71 percent as against 0.10 percent in England and Wales. The number of divorces for each thousand marriages was, in 1935, in the United States, 164 divorces for each 1,000 marriages, in England and Wales, 12 divorces for each 1,000 marriages.

(8) The mandatory joint return will not result in an increase in the tax of any family whose net income does not exceed $4,000. Where the family has one dependent, the net income would have to exceed $4,400 before the joint return will result in an increase in tax. For every additional dependent, the net income would have to be increased by $400, before the joint return would result in any increase in tax.

(9) The proposal levies the tax according to ability to pay. The taxable capacity is made to depend upon the income that accrued to the marital community and not upon the way that income happens fortuitously to be owned by members of the union. In the majority of cases where the wife has separate income, she contributes to the common purse, either by actual merger of her income with her husband's or by bearing expenses which in less fortunate households fall upon the husband.

(See the appendix of the report for a discussion of Prior Advocacy of Joint Returns and Report of the Royal Commission on the Income Tax, 1920.)

The following tables will show the relative tax burdens under the proposal:

TABLE 1.—*Comparison of tax on married person under Joint Return, with tax computed under separate returns, on specified net incomes (all income earned)*

Combined net income	Under joint return	Under separate returns						
		Percentage of combined net income attributable to each spouse						
		Husband---- Wife----	90 10	80 20	75 25	70 30	60 40	50 50
$2,500	$38.50		$38.50	$38.50	$38.50	$38.50	$38.50	$38.50
$3,000	85.80		85.80	85.80	85.80	85.80	85.80	85.80
$4,000	180.40		180.40	180.40	180.40	180.40	180.40	180.40
$5,000	308.00		291.50	275.00	275.00	275.00	275.00	275.00
$6,000	435.60		415.80	396.00	386.10	376.20	369.60	369.60
$7,000	596.20		550.00	517.00	505.45	497.20	497.20	497.20
$8,000	756.80		704.00	651.20	624.80	624.80	624.80	624.80
$9,000	961.40		862.40	798.60	777.15	762.30	752.40	752.40
$10,000	1,166.00		1,056.00	946.00	929.50	913.00	880.00	880.00
$15,000	2,545.40		2,227.50	1,980.00	1,889.25	1,815.00	1,727.00	1,727.00
$20,000	4,338.40		3,757.60	3,308.80	3,150.40	2,992.00	2,838.00	2,838.00
$25,000	6,505.40		5,625.40	4,943.40	4,673.90	4,464.90	4,217.40	4,180.00
$30,000	8,936.40		7,768.20	6,798.00	6,444.90	6,168.80	5,803.60	5,728.80
$50,000	20,002.40		17,659.40	15,866.40	15,238.40	14,715.80	14,088.80	13,956.80
$60,000	25,206.40		23,210.00	21,049.60	20,270.80	19,676.80	19,016.80	18,884.80
$80,000	39,318.40		35,125.20	32,326.80	31,358.80	30,676.80	29,774.80	29,532.80
$100,000	53,310.40		47,876.40	44,470.80	43,414.80	42,600.80	41,544.80	41,192.80
$150,000	88,299.60		81,106.00	77,428.00	76,199.50	75,138.80	73,664.80	73,268.80
$250,000	159,013.60		148,665.00	144,622.00	143,727.00	143,162.00	143,040.00	143,087.20
$500,000	346,805.60		329,696.00	324,982.00	323,679.20	322,329.20	320,115.20	319,251.20
$750,000	540,537.60		519,718.00	513,775.20	511,075.20	508,600.20	505,243.20	504,379.20
$1,000,000	736,519.60		712,860.00	704,357.20	700,775.20	698,525.20	695,825.20	694,943.20
$2,000,000	1,529,501.60		1,495,539.20	1,483,839.20	1,481,139.20	1,479,339.20	1,476,189.20	1,474,407.20
$5,000,000	3,935,483.60		3,882,621.20	3,871,371.20	3,869,121.20	3,866,835.20	3,862,371.20	3,862,371.20

This table compares the tax under the rates in the bill on the income of a family filing a joint return, all of the income of which is earned by the husband, with the tax under the rates in the bill on the income of a family filing separate returns, where some of the income is contributed by the wife.

The following table shows the number of married couples (husbands and wives living together) filing income tax returns for 1938, the number filing joint returns, the number filing separate returns, and the percentage of those filing separate returns to the total. It should be pointed out that this action was voluntary; married people being permitted to file either joint or separate returns, as they chose.

TABLE II

State	Number of married couples			Percentage of separate returns to total
	Filing joint returns	Filing separate returns[1]	Total filing returns	
Alabama	21,073	768	21,841	3.52
Arizona	9,849	1,261	11,110	11.35
Arkansas	12,368	383	12,751	3.00
California	213,009	28,580	241,589	11.83
Colorado	21,059	939	21,998	4.27
Connecticut	48,673	3,532	52,205	6.77
Delaware	7,482	684	8,166	8.38
District of Columbia	41,170	2,502	43,672	5.73
Florida	30,835	2,133	32,968	6.47
Georgia	31,947	1,374	33,321	4.12
Hawaii	8,783	508	9,291	5.47
Idaho	5,887	856	6,743	12.69
Illinois	228,240	10,273	238,513	4.31
Indiana	59,335	1,982	61,317	3.23
Iowa	39,750	1,223	40,973	2.98
Kansas	29,450	1,003	30,453	3.29
Kentucky	24,529	1,347	25,876	5.21
Louisiana	25,054	5,199	30,253	17.19
Maine	12,051	665	12,716	5.23
Maryland	64,307	3,175	67,482	4.70
Massachusetts	115,938	8,596	124,534	6.90
Michigan	132,080	4,621	136,701	3.38
Minnesota	50,283	2,033	52,316	3.89
Mississippi	11,494	462	11,956	3.86
Missouri	69,004	3,033	72,037	4.21
Montana	13,035	275	13,310	2.07
Nebraska	21,527	665	22,192	3.00
Nevada	3,878	459	4,337	10.58
New Hampshire	8,982	546	9,528	5.73
New Jersey	139,331	6,740	146,071	4.61
New Mexico	6,823	950	7,773	12.22
New York	485,084	26,977	512,061	5.27
North Carolina	26,727	1,496	28,223	5.30
North Dakota	6,573	156	6,729	2.32
Ohio	160,061	6,282	166,343	3.78
Oklahoma	32,542	1,680	34,222	4.91
Oregon	24,931	804	25,735	3.12
Pennsylvania	261,722	9,518	271,240	3.51
Rhode Island	16,418	872	17,290	5.04
South Carolina	12,890	539	13,429	4.01
South Dakota	6,402	149	6,551	2.27
Tennessee	29,758	1,097	30,855	3.56
Texas	99,248	17,267	116,515	14.82
Utah	10,702	361	11,063	3.26
Vermont	5,643	231	5,874	3.93
Virginia	36,731	1,377	38,108	3.61
Washington[2]	43,425	5,942	49,367	12.04
West Virginia	25,657	880	26,537	3.32
Wisconsin	68,191	3,025	71,216	4.25
Wyoming	6,095	178	6,273	2.84
Total	2,866,026	175,598	3,041,624	5.77

[1] Estimated on basis of number of separate returns filed by husbands and wives living together, as shown by Statistics of Income, 1938.

[2] Includes Alaska.

Thus, of 3,041,624 married couples filing income-tax returns, 2,866,026, or more than 94 percent, chose voluntarily to file joint returns, and only 175,598, or 5.77 percent, elected to file separate returns.

The following table demonstrates the tax burden the 94 percent would be obliged to assume in order to make up the revenue lost by allowing the other 6 percent to file separate returns:

TABLE III.—*Married man—no dependents*

Net income	Tax under plan A	Tax under the committee surtax rates (without the application of the mandatory joint return provision) if the—	
		Income is all the husband's	Income is divided 50–50 between husband and wife
	(A)	(B)	(C)
$2,500	$71.50	$38.50	$38.50
$3,000	151.80	85.80	85.80
$4,000	312.40	180.40	180.40
$5,000	506.00	308.00	275.00
$6,000	699.60	435.60	369.60
$7,000	915.20	596.20	497.20
$8,000	1,130.80	756.80	624.80
$9,000	1,379.40	961.40	752.40
$10,000	1,628.00	1,166.00	880.00
$15,000	3,073.40	2,545.40	1,727.00
$20,000	4,800.40	4,338.40	2,838.00
$25,000	6,824.40	6,505.40	4,180.00
$30,000	9,090.40	8,936.40	5,728.80
$50,000	19,540.40	20,002.40	13,956.80
$60,000	25,524.40	26,206.40	18,884.80
$80,000	38,482.40	39,318.40	29,532.80
$100,000	52,474.40	53,310.40	41,192.80
$150,000	87,615.60	88,299.60	73,268.80
$250,000	158,329.60	159,013.60	143,087.20
$500,000	346,121.60	346,805.60	319,251.20
$750,000	542,085.60	540,537.60	504,379.20
$1,000,000	738,085.60	736,519.60	694,943.20
$2,000,000	1,531,067.60	1,529,501.60	1,474,407.20
$5,000,000	3,937,049.60	3,935,483.60	3,862,371.20

In column (c), Mr. and Mrs. Jones each receive one-half of the income shown. In column (b) Mr. Smith receives the entire income, Mrs. Smith having no income of her own. It would be necessary to increase the tax on Mr. Smith from the amount of tax shown in column (b) to the amount shown in column (a) to secure the same revenue that would be produced by treating Mr. and Mrs. Jones like Mr. and Mrs. Smith.

Constitutionality of proposal.

It seems clear that Congress has the constitutional power to enact this proposed amendment. Generically an income tax is classed as an excise (*Brushaber* v. *Union Pac. R. R.*, 240 U. S. 1). The only express constitutional limitation upon such taxes is that they be geographically uniform. The only other possible limitations upon this kind of exercise of the taxing power are those imposed by the broad outlines of the due process clause of the fifth amendment. Obviously the proposed amendment does not run counter to the constitutional mandate of uniformity. With respect to the possible application of the due process clause, the problem revolves essentially around the power of Congress to classify income for purposes of taxation. May Congress place married persons who live together in a

separate class and, by reason of the fact that each one of those persons has a separate income, require each of them to pay a higher tax upon his or her income than he or she would have been required to pay had they lived separately?

The Supreme Court has indicated the scope of the power of Congress in this regard in the following language:

> In levying excise taxes the most ample authority has been recognized from the beginning to select some and omit other possible subjects of taxation, to select one calling and omit another, to tax one class of property and to forbear to tax another (*Flint* v. *Stone Tracy Co.*, 220 U. S. 107, 158).

Applying this principle specifically to income taxes, it has always been recognized that Congress has plenary authority to classify income for purposes of taxation, and in fact Congress has frequently exercised this authority. For example, in *Flint* v. *Stone Tracy Co.*, *supra*, the Court sustained the power of Congress to levy a tax on income derived from doing business in corporate form although persons who derived income from exactly the same kind of business were not subject to tax if they did not carry on that business in the corporate form. Under the Revenue Act of 1913, a single person was allowed an exemption of $3,000 but married persons living together were entitled to an exemption of only $4,000. If the husband and wife were separated and living apart from each other, each was entitled to an exemption of $3,000. It will be noted that under this provision, a husband and wife living together were entitled to an aggregate exemption of only $4,000, regardless of whether they filed joint or separate returns. On the other hand, a husband and wife not living together were entitled to the exemption allowed two single persons, or $6,000 in the aggregate. It was contended in the *Brushaber case*, *supra*, that "want of due process" arises from the provisions of the act allowing a deduction for the purpose of ascertaining the taxable income of stated amounts on the ground that the provisions discriminate between married and single people and discriminates between husbands and wives who are living together and those who are not. In denying this contention, the Court said:

> * * * So far as the due process clause of the fifth amendment is relied upon it suffices to say that there is no basis for such reliance since it is equally well settled that such clause is not a limitation upon the taxing power conferred upon Congress by the Constitution; in other words, that the Constitution does not conflict with itself by conferring upon the one hand a taxing power and taking the same power away on the other by the limitations of the due process clause (*Treat* v. *White*, 181 U. S. 264; *Patton* v. *Brady*, 184 U. S. 608; *McCray* v. *United States*, 195 U. S. 27, 61; *Flint* v. *Stone Tracy Co.*, *supra; Billings* v. *United States*, 232, U. S. 261, 282). And no change in the situation here would arise even if it be conceded, as we think it must be, that this doctrine would have no application in a case where although there was a seeming exercise of the taxing power, the act complained of was so arbitrary as to constrain to the conclusion that it was not the exertion of taxation but a confiscation of property, that is, a taking of the same in violation of the fifth amendment, or, what is equivalent thereto, was so wanting in basis for classification as to produce such a gross and patent inequality as to inevitably lead to the same conclusion. We say this because none of the propositions relied upon in the remotest degree present such questions. * * * In fact, comprehensively surveying all the contentions relied upon, aside from the erroneous construction of the amendment which we have previously disposed of, we cannot escape the conclusion that they all rest upon the mistaken theory that although there be differences between the subjects taxed, to differently tax them transcends the limit of taxation and amounts to a want of due process, and that where a tax levied is believed by one who resists its enforcement to be wanting in wisdom and to operate injustice, from that fact in the nature of things there arises

a want of due process of law and a resulting authority in the judiciary to exceed its powers and correct what is assumed to be mistaken or unwise exertions by the legislative authority of its lawful powers, even although there be no semblance of warrant in the Constitution for so doing.

More recently the Court has sustained the power of Congress to classify income for the purposes of taxation in *United States* v. *Hudson* (299 U. S. 498), and in *Helvering* v. *Northwest Steel Mills* (311 U. S. 46). In the *Hudson case* the Court sustained a special income tax of 50 percent on the profits derived from the transfer of interests in silver bullion. In the *Northwest Steel Mills case* the Court sustained the surtax imposed upon undistributed corporate earnings by the Revenue Act of 1936. A still more striking example is the recent tax on unjust enrichment, imposed by the Revenue Act of 1936, which levies a tax of 80 percent upon special kinds of income. These illustrations amply demonstrate the power of Congress to classify income for taxation purposes.

Coming down to the classification made by the proposed amendments, it should be noted that the proposed levy does not change the fundamental liabilities of the parties. Each spouse is required to pay a tax only upon his or her separate income. There is no imposition of a liability upon one person for the taxes payable by another; there is only an increase of tax upon the individual income of each spouse. Primarily a tax is a forced contribution from the members of a society to provide the necessary funds for the functioning of that society as an integrated unit. In levying a graduated income tax, Congress has given recognition to the principle that these forced exactions should be levied upon various individuals with reference to their ability to pay. In pursuance of this principle, Congress has from the beginning recognized the family status as sufficiently distinct to permit of special treatment. Thus the provision of the present law which allows a man to take a deduction from his gross income for dependents is merely a recognition that this man's ability to pay is not as great as that of the man who has no dependents and therefore the tax liability of the former is reduced.

From 1913 on Congress has provided such special treatment for the head of a family. Conversely, if Congress in the exercise of its judgment concludes that a man's ability to pay a higher tax is materially affected by the fact that other people in his economic unit—the family—have incomes of their own, then it may take that factor into consideration in fixing the tax such a man should pay. Thus Congress has declared that deductions may not be taken for losses resulting from sales of property between members of the same family. See section 24 (a) (6) of the Revenue Acts of 1934 and 1936 and section 24 (b) (1) (A) of the Revenue Act of 1938. Clearly Congress is not limited in classification for the imposition of higher taxes to a consideration of the amount of income only. It has been demonstrated that it may consider as a factor in classification the particular kind of source of the income. It has also been shown that Congress has always considered as a factor in classification the ability of the taxpayer to pay as affected by his family obligations. A man whose wife enjoys an independent income may as a practical matter be thereby relieved from sufficient familial burdens to materially increase his ability to support the Government. For example a man in such a position is not under the same practical burden to provide insurance

for his wife in case of his death as the man whose wife has no independent income; or he may be relieved from the burden of providing her with numerous small luxuries from his own income if she is able to purchase those things for herself. It has often been said by the Supreme Court that taxation is essentially a practical matter. Congress may therefore take into consideration the practicalities of the situation and classify accordingly.

The only authority against the constitutionality of the proposed legislation is *Hoeper* v. *Tax Commission* (284 U. S. 206). There the State of Wisconsin had provided for treatment of spouses who enjoyed independent incomes similar to that provided for in the proposed amendments. There was, however, one essential difference. Under the Wisconsin law each person whose income was included within the tax computation was liable for the entire tax. The Supreme Court held that this legislation was unconstitutional on the ground that each person was liable for the total tax and therefore A was required to pay a tax on B's income. But this conclusion was reached over the vigorous dissent of Mr. Justice Holmes, Mr. Justice Brandeis, and Mr. Justice Stone, and the views of the dissenters in the *Hoeper case* have recently been measurably strengthened by the Supreme Court in a series of significant decisions. *Burnet* v. *Wells* (289 U. S. 670), *Helvering* v. *Clifford* (309 U. S. 331), see also *Helvering* v. *Horst* (311 U. S. 112), *Helvering* v. *Eubank* (311 U. S. 122), *Hormel* v. *Helvering* (85 L. Ed. 651), *Harrison* v. *Schaffner* (85 L. Ed. 694).

These cases conclusively demonstrate that the convenient phrase, "A may not be taxed on B's" income, is by no means an all-pervasive formula which will assist in the solution of tax problems. On the contrary A may be taxed on B's income if there are sufficient justificatory facts. The inquiry does not cease with a determination that A is being taxed on income which he did not receive, but must be further pursued with a view to discovering whether there are sufficient facts to so justify taxing A. The *Wells, Clifford, Horst, Eubank, Hormel*, and *Schaffner cases* are examples of situations in which the Supreme Court has concluded that A could be so taxed.

Thus in the *Wells case* the taxpayer had created certain irrevocable trusts the income from which was used to pay premiums on policies of insurance on his life. The Court held that the provision of the Revenue Act of 1924 which directed that such income be taxed to the grantor was constitutional, saying, through Mr. Justice Cardozo (pp. 677–679):

> The controversy is one as to the boundaries of legislative power. It must be dealt with in a large way, as questions of due process always are, not narrowly or pedantically, in slavery to forms or phrases. "Taxation is not so much concerned with the refinements of title as it is with the actual command over the property taxed—the actual benefit for which the tax is paid" (*Corliss* v. *Bowers*, *supra*, p. 378; cf. *Burnet* v. *Guggenheim*, *supra*, p. 283). Refinements of title have at times supplied the rule when the question has been one of construction and nothing more, a question as to the meaning of a taxing act to be read in favor of the taxpayer. Refinements of title are without controlling force when a statute, unmistakable in meaning, is assailed by a taxpayer as overpassing the bounds of reason, an exercise by the lawmakers of arbitrary power. In such circumstances the question is no longer whether the concept of ownership reflected in the statute is to be squared with the concept embodied, more or less vaguely, in common-law traditions. The question is whether it is one that an enlightened legislator might act upon without affront to justice. Even administrative convenience, the practical necessities of an efficient system of taxation, will have heed and recognition

within reasonable limits (*Milliken* v. *United States*, 283 U. S. 15, 24, 25; *Reinecke* v. *Smith*, *supra*). Liability does not have to rest upon the enjoyment by the taxpayer of all the privileges and benefits enjoyed by the most favored owner at a given time or place (*Corliss* v. *Bowers*, *supra*; *Reinecke* v. *Smith*, *supra*). Government in casting about for proper subjects of taxation is not confined by the traditional classification of interests or estates. It may tax not only ownership but any right or privilege that is a constituent of ownership (*Nashville, C. & St. L. Ry. Co.* v. *Wallace*, 288 U. S. 249, 268; *Bromley* v. *McCaughn*, 280 U. S. 124, 136). Liability may rest upon the enjoyment by the taxpayer of privileges and benefits so substantial and important as to make it reasonable and just to deal with him as if he were the owner, and to tax him on that basis. A margin must be allowed for the play of legislative judgment. To overcome this statute the taxpayer must show that in attributing to him the ownership of the income of the trusts, or something fairly to be dealt with as equivalent to ownership, the lawmakers have done a wholly arbitrary thing, have found equivalence where there was none nor anything approaching it, and laid a burden unrelated to privilege or benefit. * * *

In *Helvering* v. *Clifford*, *supra*, the Court pointed out that the familial relationship has sufficient individuality to have a substantial effect upon tax consequences. In that case a husband had created a trust of certain securities for the term of 5 years, the income from which was to be paid to his wife. In holding the husband taxable upon the income of that trust,[1] the Court said (pp. 335–336):

We have at best a temporary reallocation of income within an intimate family group. Since the income remains in the family and since the husband retains control over the investment, he has rather complete assurance that the trust will not effect any substantial change in his economic position. It is hard to imagine that respondent felt himself the poorer after this trust had been executed or, if he did, that it had any rational foundation in fact, for as a result of the terms of the trust and the intimacy of the familial relationship respondent retained the substance of full enjoyment of all the rights which previously he had in the property. That might not be true if only strictly legal rights were considered, but when the benefits flowing to him indirectly through the wife are added to the legal rights he retained, the aggregate may be said to be a fair equivalent of what he previously had. To exclude from the aggregate those indirect benefits would be to deprive section 22 (a) of considerable vitality and to treat as immaterial what may be highly relevant considerations in the creation of such family trusts, for where the head of the household has income in excess of normal needs, it may well make but little difference to him (except income-tax-wise) where portions of that income are routed—so long as it stays in the family group.

Not only does the *Hoeper case* have no authority in the field of Federal income taxation, but its vitality as an effective limitation upon the taxing power of the States has also been dissipated by more recent decisions of the Supreme Court which have seriously undermined its foundations by holding that a State is not forbidden by the fourteenth amendment to make such classifications as the legislature regards to be necessary to protect its revenues. In *Madden* v. *Kentucky* (309 U. S. 83), the Supreme Court upheld a Kentucky statute which taxed deposits in banks outside of the State at 50 cents per $100, although deposits in banks within the State were taxed at only 10 cents per $100. The Court there said (pp. 87–88):

The broad discretion as to classification possessed by a legislature in the field of taxation has long been recognized. * * * Traditionally classification has been a device for fitting tax programs to local needs and usages in order to achieve an equitable distribution of the tax burden. It has, because of this, been pointed out that in taxation, even more than in other fields, legislatures possess the greatest freedom in classification. Since the members of a legislature necessarily enjoy a familiarity with local conditions which this Court cannot have, the presumption of constitutionality can be overcome only by the most explicit demonstration

[1] Though the taxpayer argued on the basis of the *Hoeper case* that it was unconstitutional to tax A on B's income, the Court did not even deem it necessary to discuss the point.

that a classification is a hostile and oppressive discrimination against particular persons and classes. The burden is on the one attacking the legislative arrangement to negative every conceivable basis which might support it.

It may fairly be predicted that if the Supreme Court were presented today with the question presented in the *Hoeper case* that that case would not be followed. But even if the *Hoeper case* be taken at its face value, the provisions of the bill do not come within its scope. The motivating factor for the decision in that case was the provision that each person whose income was included within the tax computation was liable for the entire tax. It has been pointed out that the legislation here under consideration does not make the spouses jointly and severally liable for the entire tax unless they so elect. Each person is required to pay a tax only upon his own income and not upon the income of any other person. The net effect is merely that the amount of the tax which he is required to pay is conditioned by the fact that he lives in an economic unit which has other income accruing to it.

For these reasons it is concluded that it is within the power of Congress to make the suggested changes in the Internal Revenue Code.

II. CORPORATION INCOME AND EXCESS-PROFITS TAXES

1. TAXABLE YEARS

The amendments made with respect to corporation income and excess-profits taxes are applicable with respect to taxable years beginning after December 31, 1940.

2. CORPORATION NORMAL TAX

The bill makes the defense tax permanent but does not change the corporation normal tax rate. A change is made, however, in the normal tax base, the excess-profits tax being allowed as a deduction from gross income in arriving at net income subject to normal tax.

3. CORPORATION SURTAX

The bill imposes upon corporations a surtax of 5 percent of the first $25,000 of surtax net income and 6 percent of the balance. The surtax is employed as the only means of reaching income from the large volume of partially tax-exempt Federal securities held by corporations.

Of the total amount outstanding of partially tax-exempt securities held by private investors in the amount of $30,966,000,000, $15,817,000,000 are held by banks, $6,123,000,000 by insurance companies, and the balance are held by other persons. Thus banks hold 51.1 percent of the total, insurance companies 19.8 of the total, and other persons 29.1 of the total.

4. FOREIGN CORPORATIONS

The rate of tax on foreign corporations not engaged in trade or business within the United States and not having an office or place of business therein is increased from 16½ percent (15 percent plus 1½ percent defense tax) to 27½ percent (25 percent plus 2½ percent defense

tax). The rates for withholding this tax at the source are increased accordingly.

Treatment similar to that accorded nonresident alien individuals who are residents of the Western Hemisphere is accorded foreign corporations organized under the laws of any country in North, Central, or South America, the West Indies, or Newfoundland.

8. EXCESS-PROFITS TAX

Your committee has retained the excess-profits tax structure which was established in the Second Revenue Act of 1940. The allowance of the alternative methods of computing the excess-profits credit—that is, either the invested-capital method or the average-earnings method—has been justified by experience. The soundness of the policy of allowing the computation of the credit on the basis of average earnings appears to your committee to have been adequately demonstrated.

A method for computing excess profits based upon invested capital alone will penalize many corporations and favor their competitors. For example, a corporation organized in a period of low values would be discriminated against in favor of a corporation organized in a period of high values. Compare, for example, a corporation organized in 1929 with a corporation organized in 1931. The identical assets may have been turned in to each corporation. Yet such assets may be reflected in invested capital of one corporation at many times the value it would have in computing the invested capital of the other corporation. In the summary of the testimony before the War Policy Commission, House Document No. 271, it is stated in reference to invested capital that, "In some cases mere accidents of incorporation in one year, instead of one year later, meant savings in taxes of millions of dollars." A corporation reorganized shortly before the World War would have a higher basis than if there had been no such reorganization. The invested-capital method alone would also favor a corporation which has distributed in the past little or no dividends as compared with a corporation which has pursued a liberal dividend policy. This is because the accumulated earnings and profits of a corporation enter into the computation of its invested capital. It would also penalize the stockholders of a corporation who paid for their stock on the basis of the present worth of the corporation. It is well recognized that there has been a large turn-over in the stock of many corporations. The present owners in many instances acquired such stock on the basis of the earning record of the corporation at the time of purchase. To conclude that they have realized excess profits on the basis of what the original owners paid for the stock seems contrary to equity and justice.

The invested-capital method will also give no recognition to the fact that many businesses have been conservatively capitalized or built up, especially the smaller ones, not mainly from capital but from good management, skill, development of goodwill, favorable locations, trade advantages, and other important factors of personal efficiency. As well stated by the late Professor Seligman of Columbia University: "Almost all large businesses have grown from humble beginnings and

it is precisely in these humble beginnings that the percentage of the profits to the capital invested is apt to be the greatest." However, your committee felt that there was ample justification for continuing the use of the invested-capital method as an optional base. It is necessary to provide a yardstick for those corporations which had no base-period income or those which were operating on a subnormal basis in the base period. But, it is not believed that the treatment should be such as to give corporations too large an exemption of profits attributable to the defense program.

Upon this structure, your committee has made the following changes:

(*a*) *Increased rates.*—The existing rates have been increased by 10 percentage points in each bracket, as follows:

Adjusted excess-profits net income	Rates under—	
	Existing law (percent)	Proposed law (percent)
$0 to $20,000	25	35
$20,000 to $50,000	30	40
$50,000 to $100,000	35	45
$100,000 to $250,000	40	50
$250,000 to $500,000	45	55
Over $500,000	50	60

(*b*) *Reduction in invested capital credit.*—The invested capital credit, which under existing law is 8 percent of the invested capital, is left 8 percent on the first $5,000,000 of invested capital but is reduced to 7 percent on the balance.

(*c*) *Reversal of the deduction for income and excess-profits taxes.*—Under existing law, the income tax is allowed as a deduction in the computation of the excess-profits tax. It seems unfair to allow that part of the income tax which is computed on income which is not subject to the excess-profits tax to reduce the excess-profits net income. Canada allows only that part of the income tax which is computed upon income subject to the excess-profits tax. Under the World War Act, the excess-profits tax was allowed as a deduction in computing the normal tax but the normal tax was not allowed as a deduction in computing the excess-profits tax. This is also the rule which is now applied by the British. The tax result in Canada is practically the same as the British rule and our 1918 rule. However, it is believed that the World War rule is much simpler in its application. Your committee has, therefore, deemed it advisable to return to the 1918 rule, and has disallowed the deduction of income taxes, both in the base period and in the taxable year, in computing the excess-profits tax. The deduction is allowed in computing both the normal tax and the surtax. The effect of the reversal of the deduction is that the 8 percent credit on invested capital provided in the bill is equivalent to a credit on invested capital of 5.6 percent after deduction of the normal tax and surtax, and the 7-percent credit on invested capital is equivalent to a credit on invested capital of 4.9 percent after deduction of the normal tax and surtax. The following example will show how the plan will operate:

CORPORATION INCOME TAX DEDUCTIBLE IN COMPUTING EXCESS-PROFITS NET INCOME

Corporation "A" (invested capital):		Corporation "B" (average earnings):	
Invested capital	$1, 250, 000	Average base period earnings	$100, 000
Credit of 8 percent	100, 000	Base period tax at 17 percent	17, 000
Net income, taxable year	130, 000	Excess-profits base period net income	83, 000
Normal and surtax	38, 750	Net income, taxable year	130, 000
Excess-profits net income	91, 250	Normal and surtax	38, 750
Less credit of 8 percent plus specific exemption of $5,000	105, 000	Excess-profits net income	91, 250
Adjusted excess-profits net income (deficit)	13, 750	Less credit, 95 percent of $83,000 plus specific exemption of $5,000	83, 850
Excess-profits tax		Adjusted excess-profits net income	7, 400
Total tax	38, 750	Excess-profits tax	1, 850
		Total tax	40, 600

EXCESS-PROFITS TAX DEDUCTIBLE IN COMPUTING CORPORATION NET INCOME FOR NORMAL AND SURTAX

Invested capital	$1, 250, 000		
Credit of 8 percent	100, 000	Average base period earnings	$100, 000
Net income, taxable year	130, 000	Net income, taxable year	130, 000
Less credit of 8 percent plus specific exemption of $5,000	105, 000	Less credit—95 percent of $100,000 plus specific exemption of $5,000	100, 000
Adjusted excess-profits net income	25, 000	Adjusted excess-profits net income	30, 000
Excess-profits tax	9, 000	Excess-profits tax	11, 000
Normal and surtax		*Normal and surtax*	
Net income, taxable year	130, 000	Net income, taxable year	130, 000
Less excess-profits tax	9, 000	Less excess-profits tax	11, 000
Adjusted net income	121, 000	Adjusted net income	119, 000
Normal and surtax	36, 050	Normal and surtax	35, 450
Total tax	45, 050	Total tax	46, 450

(*d*) *Ten percent tax on additional profits not subjected to excess-profits tax under existing law.*—The existing law does not subject to the excess-profits tax earnings which are not in excess of the greater of the average earnings for the base period and the invested capital credit. Thus, many corporations which are making added profits directly or indirectly attributable to Government expenditures for the national defense are paying no additional taxes upon such profits. It is felt that such corporations, benefiting so substantially from the defense expenditures, should make a larger contribution from their increased income even though their income for the taxable year is still less than the invested capital credit.

For these reasons, your committee recommends that corporations using the invested capital credit pay a tax of 10 percent upon their increased earnings which are not subjected to excess-profits tax under existing law.

(*e*) *New capital.*—In order to encourage the investment of new capital in corporate enterprise, your committee is impressed with the desirability of offering a special inducement in the form of a more liberal credit where new capital is present. To achieve this result, new capital is counted at 125 percent. Thus for every $100 of new capital paid in to a corporation, the invested capital of such corporation is increased by $125. This method is the equivalent of allowing an invested capital credit on new capital of 10 percent, where 8 percent is allowed on old capital, and 8¾ percent where 7 percent is allowed on old capital.

New capital is limited to money or property paid in for stock during taxable years beginning after December 31, 1940, and taxable stock dividends made during the same period. Borrowed capital does not constitute new capital nor can transactions in certain tax-free exchanges or between corporations which are members of an affiliated group in which more than 50 percent control is present, create new capital. Earnings and profits retained in the business are not considered new capital.

To prevent corporations from turning old capital into new by paying it out to shareholders and then having it reinvested, and to prevent borrowed capital from being transformed into new equity capital, a net capital increase concept is used. For the purposes of measuring such net increases in capital, reference is had to the capital as of the beginning of the first taxable year beginning in 1941. Furthermore, capital that would otherwise receive new capital treatment, is denied such treatment to the extent that there is a net increase in inadmissible assets.

6. INCOME FROM MINING STRATEGIC METALS

The existing law exempts from the excess-profits tax that portion of the adjusted excess-profits tax net income of a domestic corporation which is attributable to mining within the United States of tungsten, quicksilver, manganese, platinum, antimony, chromite, or tin.

Your committee has removed this exemption as it is believed that these corporations which make money out of the defense program should bear their share of the tax burden.

III. CAPITAL-STOCK TAX AND DECLARED VALUE EXCESS-PROFITS TAX

1. CAPITAL-STOCK TAX

The bill increases the capital-stock-tax rate from $1.10 ($1 plus 10 cents defense tax) per $1,000 of adjusted declared value to $1.25 effective for the fiscal year ending June 30, 1941. The Commissioner has extended the time for filing returns and paying the tax for the year ended June 30, 1941, until September 29 of this year. For the period of this extension, no interest will be required.

2. DECLARED VALUE EXCESS-PROFITS TAX

Under existing law, the same deductions (with the exception of the declared value excess profits tax itself) are allowed in computing net income for income tax purposes as for the purposes of the declared value excess profits tax.

While the bill adds the excess-profits tax to the existing deductions allowed in computing net income for income-tax purposes, it makes no such provision for the computation of net income for the purposes of the declared value excess-profits tax. While the effect of this disallowance would be ordinarily to justify a higher declared value for capital stock, and, therefore, a greater capital-stock tax, it is believed that this disadvantage to the taxpayer will be largely offset by the larger deduction on that account for income and excess profits tax purposes and by the fact that the allowance of the deduction in question would introduce a factor of considerable uncertainty in the determination of a declared value that would produce the smallest combined capital stock and declared value excess profits tax.

IV. ESTATE AND GIFT TAXES

1. ESTATE TAX

The bill provides a new schedule of increased rates for the estate tax, applicable only to the estates of decedents dying after the enactment of this bill. In addition, the 10-percent defense tax is made permanent. No other change is made with respect to the estate tax. The following table sets out a comparison of the rates and the cumulative tax under existing law and under the bill. It should be noted that the tax computed under these rates is subject to reduction by the credit allowed for State death taxes paid and does not include the 10-percent defense tax.

Net estate after specific exemption	Existing law		Proposed law	
	Bracket rate (percent)	Cumulative tax on higher amount	Bracket rate (percent)	Cumulative tax on higher amount
0 to $5,000	2	$100	3	$150
$5,000 to $10,000	2	200	7	500
$10,000 to $20,000	4	600	10	1,500
$20,000 to $30,000	6	1,200	13	2,800
$30,000 to $40,000	8	2,000	16	4,400
$40,000 to $50,000	10	3,000	20	6,400
$50,000 to $60,000	12	4,200	23	8,700
$60,000 to $100,000	12–14	9,600	25	18,700
$100,000 to $250,000	17–20	36,600	27	59,200
$250,000 to $500,000	20–23	89,600	29	131,700
$500,000 to $750,000	23–26	151,600	32	211,700
$750,000 to $1,000,000	26–29	222,600	34	296,700
$1,000,000 to $1,250,000	32	302,600	36	386,700
$1,250,000 to $1,500,000	32	382,600	38	481,700
$1,500,000 to $2,000,000	35	557,600	41	686,700
$2,000,000 to $2,500,000	38	747,600	45	911,700
$2,500,000 to $3,000,000	41	952,600	48	1,151,700
$3,000,000 to $3,500,000	44	1,172,600	51	1,406,700
$3,500,000 to $4,000,000	47	1,407,600	54	1,676,700
$4,000,000 to $5,000,000	50–53	1,922,600	58	2,256,700
$5,000,000 to $6,000,000	56	2,482,600	61	2,866,700
$6,000,000 to $7,000,000	59	3,072,600	64	3,506,700
$7,000,000 to $8,000,000	61	3,682,600	66	4,166,700
$8,000,000 to $9,000,000	63	4,312,600	69	4,856,700
$9,000,000 to $10,000,000	65	4,962,600	69	5,546,700
$10,000,000 to $20,000,000	67	11,662,600	70	12,546,700
$20,000,000 to $50,000,000	69	32,362,600	70	33,546,700
Over $50,000,000	70	----------	70	----------

The following table shows a comparison of the Federal estate tax burden (before allowance of credit for State death taxes) under existing law and under the bill upon net estates (before exemption) of selected sizes.

Net estate before exemption	Amount of tax [1]		Effective rates		Increase in tax	
	Existing law	Proposed law	Existing law	Proposed law	Amount	Percent
$50,000	$220	$550	0.4	1.1	$330	150.0
$60,000	660	1,650	1.1	2.8	990	150.0
$80,000	2,200	4,840	2.8	6.1	2,640	120.0
$100,000	4,620	9,570	4.6	9.6	4,950	107.1
$200,000	21,660	38,270	10.8	19.1	16,610	76.7
$400,000	63,780	99,530	15.9	24.9	35,750	56.1
$600,000	112,340	164,590	18.7	27.4	52,250	46.5
$800,000	167,340	234,330	20.9	29.3	66,990	40.0
$1,000,000	228,780	308,090	22.9	30.8	79,310	34.7
$2,000,000	588,000	727,370	29.4	36.3	139,370	23.7
$4,000,000	1,499,640	1,792,570	37.5	44.8	292,930	19.5
$6,000,000	2,655,140	3,075,450	44.3	51.3	420,310	15.8
$10,000,000	5,323,500	5,964,250	53.2	59.6	640,750	12.0
$20,000,000	12,532,700	13,503,890	62.7	67.5	971,190	7.7
$40,000,000	27,391,820	28,583,890	68.5	71.4	1,192,070	4.4
$60,000,000	42,361,380	43,663,890	70.6	72.8	1,302,510	3.1
$100,000,000	72,521,380	73,823,890	72.5	73.8	1,302,510	1.8

[1] Includes 10-percent defense tax.

2. GIFT TAX

The bill provides a new schedule of increased gift-tax rates applicable for computing the tax for the calendar year 1942 and subsequent calendar years. In addition, the 10 percent defense tax is made permanent. As under existing law, the new gift-tax rates are in each case three-fourths of the corresponding estate-tax rate. No other change is made with respect to the gift tax.

V. EXCISE TAXES

In connection with the increase in the rates of many excise taxes and the imposition of several new levies, it should be noted that the Federal Statutes impose a severe penalty upon persons making false statements to purchasers of articles regarding Federal taxes thereon. Section 3325 of the Internal Revenue Code provides as follows:

> Whoever in connection with the sale or lease, or offer for sale or lease, of any article, or for the purpose of making such sale or lease, makes any statement, written or oral, (1) intended or calculated to lead any person to believe that any part of the price at which such article is sold or leased, or offered for sale or lease, consists of a tax imposed under the authority of the United States, or (2) ascribing a particular part of such price to a tax imposed under the authority of the United States, knowing that such statement is false or that the tax is not so great as the portion of such price ascribed to such tax, shall be guilty of a misdemeanor and upon conviction thereof shall be punished by a fine of not more than $1,000 or by imprisonment not exceeding one year, or both.

At the outset, it should be pointed out that many excise taxes under existing law will expire in 1945. Other such taxes will then become effective at reduced rates. In addition, the temporary defense taxes imposed by the first Revenue Act of 1940 will terminate in 1945. As a result of these varying rules, both as to the termination of taxes and as to the changes in rates, considerable confusion has arisen.

Your committee deems it desirable to remove these expiration dates and future rate changes from the law. This action has been taken without prejudice to the temporary nature of these levies and rate increases, for the desirability of their repeal or downward revision as soon as our revenue needs will allow is fully recognized.

1. EXCISE TAXES MADE PERMANENT

A.—Temporary subjects of tax made permanent

Subject of tax	Internal Revenue Code section	Expiration date under existing law
MANUFACTURERS' EXCISE TAXES		
Tires and inner tubes	3400	July 31, 1945
Toilet preparations	3401	June 30, 1945
Automobiles	3403	July 31, 1945
Radio receiving sets	3404	June 30, 1945
Mechan cal refrigerators	3405	Do.
Matches	3409	Do.
Electrical energy	3411	Do.
Gasoline	3412	Do.
Lubricating oils	3413	Do.
IMPORT TAXES		
Petroleum and derivatives	3422	Do.
Coal	3423	Do.
Lumber	3424	Do.
Copper	3425	Do.
TRANSPORTATION AND COMMUNICATION TAXES		
Transportation of oil by pipe line	3460	June 30, 1945
Telegraph, telephone, radio, and cable facilities	3465	Do.
DOCUMENTARY STAMP TAXES		
Corporate Securities (transfer)	3481	Do.
Conveyances	3482	Do.

B.—Taxes with respect to which temporary increases in rate are made permanent

Subject of tax	Internal Revenue Code section	Expiration date of increase in rate under existing law
Corporate securities (issue)	1801	June 30, 1945
Capital stock (issue)	1802 (a)	Do.
Capital stock (transfer)	1802 (b)	Do.

2. DEFENSE TAX RATES MADE PERMANENT

In the first Revenue Act of 1940, the rate of almost every excise tax was increased by the defense tax. In most cases, these increases amounted to 10 percent of the then existing tax rate. These defense tax rate increases would expire under existing law in 1945. Because of the confusion which might result from these complexities, the bill makes these rate increases permanent.

The amendments made by the bill to the existing law in this respect are clerical in nature and do not change the rates or the scope of the

taxes involved. For convenience, the following table sets out the taxes to which these technical changes apply:

Subject of tax	Internal Revenue Code section	Permanent rates
(1) Box seats	1700 (b) (1)	11 percent.
(2) Sales outside box office	1700 (c) (1)	Do.
(3) Corporate securities (issue)	1801	11 cents.
(4) Capital stock (issue)	1802 (a)	11 and 3 cents.
(5) Capital stock (transfer)	1802 (b)	5 and 6 cents.
(6) Insurance policies	1804	4 cents.
(7) Passage tickets	1806	$1.10, $3.30, and $5.50.
(8) Cigarettes	2000 (c) (2)	$3.25 and $7.80.
(9) Pistols and revolvers	2700 (a)	11 percent.
(10) Fermented malt liquors	3150 (a)	$6.
(11) Wholesalers of liquors	3250 (a) (1)	$110.
(12) Retailers of liquors	3250 (b)	$27.50.
(13) Brewers	3250 (c)	$110 and $55.
(14) Wholesalers of malt liquors	3250 (c)	$55.
(15) Retailers of malt liquors	3250 (e) (1)	$22.
Do	3250 (e) (3)	$2.20.
(16) Rectifiers	3250 (f) (1)	$220 and $110.
(17) Stills	3250 (j)	$55 and $22.
(18) Firearms, etc	3407	11 percent.
(19) Electrical energy	3411	3⅛ percent.
(20) Gasoline	3412 (a)	1½ cents.
(21) Lubricating oils	3413	4½ cents.
(22) Transportation of oil by pipe line	3460 (a)	4½ percent.
(23) Corporate securities (transfer)	3481 (a)	5 cents.
(24) Conveyances	3482	55 cents.

The above rates include the basic rates imposed by the indicated sections of the Internal Revenue Code and the defense tax imposed by section 1650 (a).

8. INCREASES IN RATES OF EXISTING EXCISE TAXES

The bill increases the rates of certain excise taxes but makes no change in their bases. Other existing excise tax rates are increased but there are also changes made in their bases. Such changed rates and bases will be discussed in the next part of this report.

Those excise taxes with respect to which the bill makes rate increases only are listed in the following table, along with the pertinent sections of the Internal Revenue Code, the rate under existing law and the rate under the bill:

Subject of tax	Internal Revenue Code section	Rate of tax—	
		Existing law, including defense tax rate	Proposed law
Playing cards	1807 (a)	11 cents	13 cents.
Safe-deposit boxes	1850 (a), 1650 (a)	11 percent	20 percent.
Distilled spirits	2800 (a) (1), (g)	$3	$4.
Brandy	2800 (a) (1), (g)	$2.75	$3.75.
Imported perfumes	2800 (a) (3), (g)	$3	$4.
Still wines	3030 (a) (1) (A), 3190	6 cents	8 cents.
		18 cents	24 cents.
		30 cents	50 cents.
Sparkling wines (natural)	3030 (a) (2), 3190	3 cents	4 cents.
Sparkling wines (artificial)	3030 (a) (2), 3190	1½ cents	2¼ cents.
Liqueurs, cordials, etc	3030 (a) (2), 3190	1½ cents	2¼ cents.
Tires	3400 (1), 1650 (a)	2½ cents	5 cents.
Tubes	3400 (2), 1650 (a)	4½ cents	9 cents.

A floor-stocks tax of $1 per proof-gallon is imposed with respect to distilled spirits which on the effective date of this bill are held for sale or for use in the further manufacture or production of any article intended for sale.

A like floor-stocks tax is imposed upon wines at rates equal to the increases in tax shown in the above table.

Floor-stocks taxes are imposed upon tires and tubes held for sale by anyone, other than the manufacturer, on the effective date of this bill. The floor-stocks tax rate on tires is 2½ cents per pound and on tubes 4½ cents per pound. These rates are equal to the increase in taxes on these articles shown in the above table.

4. CHANGES IN BASIS OF COMPUTING TAX (RATES INCREASED IN CERTAIN CASES)

In addition to the increases made by the bill in the rates of the existing excise taxes described under the preceding heading, certain other excise taxes undergo a change of base and, in some instances, an increase in rate as well, under the bill. Those existing excises with respect of which a change of base only is made are—

Admission tax.—The existing law imposes a tax on admission charges of 21 cents or more. The bill taxes admission charges of 10 cents or more. Your committee felt it desirable to provide that where members of the military or naval forces, or the Civilian Conservation Corps, are admitted free or at reduced rates, the tax shall apply only to the amount actually paid for admission.

Certain admission charges exempted from tax under existing law, however, are denied exemption under the bill. The principal category of such admission charges comprises those of which the proceeds go to religious, educational, or charitable institutions or organizations. Your committee regards these exemptions as of little or no benefit to such institutions or organizations and, at the same time, as a source of serious administrative difficulties and loss of revenue. This tax is imposed upon the person admitted and not the organization.

In addition, the bill would repeal a provision of the Department of the Interior Appropriation Act (Public, No. 136, 77th Cong., 1st sess.) which exempts from the admission tax fees for admission to national parks and monuments.

Cabarets, roof gardens, etc.—Under the existing law, an attempt is made to segregate from the total charge made at cabarets, roof gardens, and similar places of entertainment, the portion attributable to a charge for admission, where such charge is wholly or in part included in the patron's bill. This method of taxation has entailed serious administrative difficulties.

To obviate these difficulties, the bill makes the total charge the basis of the tax and applies to that base a rate of 5 percent, in lieu of the existing rate of approximately 20 percent of the portion of the bill attributable to an admission charge. Under existing law the tax is upon the patron but the owner of the establishment is charged with its collection and payment into the Treasury. The bill places the tax directly on the owner.

Club dues.—The existing law taxes club dues which exceed $25 a year. The bill taxes such dues if they exceed $10 a year.

Furthermore, the bill redefines "club dues" so that they include any charge for social, athletic, or sporting privileges or facilities.

The inclusion of such charges will prevent the tax avoidance possible under existing law by the practice of making separate charges for the various privileges and facilities. The exemption allowed fraternal organizations remains unchanged.

Those existing excise taxes, with respect to which both a change in base and an increase in rate are effected by the bill, are:

Automobiles, trucks, busses, and parts.—The rate on passenger automobiles and motorcycles is increased from 3½ to 7 percent. In addition, trailers suitable for use with passenger automobiles and motorcycles, which are not taxed under existing law, are also taxed in this category.

The rate on trucks is increased from 2½ to 5 percent. Busses are made taxable under this category rather than as passenger automobiles. In addition, truck and bus trailers, which are not taxed under existing law, are made taxable at the 5-percent rate.

The tax on parts or accessories is increased from 2½ to 5 percent. Radios are excluded from the list of automobile accessories since they are separately taxed at a higher rate.

Radios, phonographs, phonograph records, and musical instruments.—Under existing law the tax applies only to parts and accessories for radio receiving sets and combination radio and phonograph sets. This category has been expanded to include completed radio sets, phonographs, phonograph records, automobile radios, and musical instruments.

The rate of tax is increased from 5½ to 10 percent.

Refrigerators, refrigerating apparatus, and air-conditioners.—Under existing law the tax on mechanical refrigerators applies only to those of the household type and components and parts thereof. Under the bill this tax will apply to all mechanical refrigerators and refrigerating units whether of household or other type. In addition, self-contained air-conditioning units and their components are added to this category.

The tax rate is increased from 5½ to 10 percent.

Matches.—The existing law taxes only fancy wooden matches at a rate of 5½ cents per thousand. The bill continues this tax at the same rate and also taxes all other matches at a rate of 2 cents per thousand.

Telephone, telegraph, etc.—Under existing law telephone-toll charges, telegraph messages, and radio messages are taxed separately and at different rates. Telephone-toll charges are now taxed at 5, 15, and 20 cents on charges of from 50 cents to $1, $1 to $2, and over $2, respectively. Telegraph messages are now taxed at 5 percent of the amount charged and radio messages at 10 cents each.

The bill places these three types of services in the same category and taxes them on an ad valorem basis. Where the charge is more than 24 cents, a tax of 5 cents for each 50 cents, or fraction thereof, of the charge is imposed.

The 5-percent tax on leased wires and talking circuits is retained and the base is expanded to include wire services such as teletypewriter service, burglar alarm service, news ticker service, stock quotation and information services, and the like. The exemption provided by existing law for the services of this type utilized by a common carrier, telephone or telegraph company, or a radio broadcasting company or

net work in the conduct of its business as such, is continued by the bill.

A new tax of 5 percent is imposed upon the amount paid for local telephone service, excluding amounts paid for installation and upkeep.

5. NEW EXCISE TAXES

In addition to the present excise taxes your committee recommends the adoption of the following new levies:

Soft drinks.—A tax on bottled soft drinks, sold by the bottler or importer, at one-sixth of a cent per bottle for bottles selling at retail for not more than 10 cents per bottle; one-third of a cent for a bottle selling for from 11 to 20 cents; and one-half of a cent for a bottle selling for more than 20 cents. These rates apply to bottles containing a quart or less. If the bottle contains more than a quart, the tax is 6 percent of the price for which sold by the bottler or importer.

As a corollary to the tax on bottled beverages, a manufacturers' excise tax of 6 cents per gallon is imposed upon finished or fountain syrups sold to any person other than a bottler, and a tax of 4 cents per pound is imposed upon carbonic acid gas sold to soda fountains.

Manufacturers' excise taxes.—Taxes are imposed upon the following items at the rate of 10 percent of the price for which sold by the manufacturer, producer, or importer:

Subject of tax:	Subject of tax—Continued.
Sporting goods.	Rubber products.
Luggage.	Commercial washing machines.
Electrical appliances.	Optical equipment (not including eyeglasses).
Photographic apparatus.	
Business and store machines.	

Retailers' excise taxes.—The bill imposes a tax of 10 percent upon the retail sale of jewelry, furs, and toilet preparations. The tax is placed upon the retail sale rather than the manufacturer's or importer's sale because of administrative and equitable considerations. Manufacturers' excise taxes upon these articles have been imposed by the Federal Government in the past. Such a tax upon toilet preparations is, in fact, imposed by existing law. Experience has proven, however, that under such taxes evasion is substantial and inequitable competitive situations are created.

In view of these considerations your committee is convinced of the desirability of placing these taxes upon the retail sale. The manufacturers' tax on toilet preparations is repealed.

Transportation of persons.—A tax of 5 percent is imposed upon the amount paid within the United States for the transportation of persons by rail, motor vehicle, water, or air. Transportation by motor vehicles seating less than 10 persons is exempt. Likewise, the bill exempts amounts paid for transportation which do not exceed 35 cents, amounts paid for commutation tickets for single trips of less than 30 miles, and amounts paid for commutation tickets for 1 month or less.

Coin operated amusement and gaming devices.—A special tax of $25 per year is imposed for each slot machine, pinball machine, or similar amusement or gaming device maintained on any place or premises. The tax does not apply with respect to bona fide vending machines.

Bowling alleys, billiard and pool tables.—A special tax of $15 per year is imposed for every billiard or pool table and every bowling alley except those in private homes.

Outdoor advertising.—A special tax is imposed on advertising on billboards or other structures upon real property, the rate of which is regulated according to the amount of advertising-space area. For each billboard having an advertising space of not over 300 square feet the tax is $5 per annum; for such space amounting to more than 300 square feet and not more than 600 square feet, the tax is $8 per annum; and for such space amounting to more than 600 square feet, the tax is $11 per annum. The tax is to be paid by the lessor of billboards, with respect to each billboard maintained or controlled by him. However, if such lessor discontinues the control or maintenance of a billboard within the taxable year on which he has paid tax, and later employs another billboard of the same tax classification as the one on which tax was paid and control or maintenance of which was discontinued, then with respect to such additional billboard no tax shall be payable.

Use of motor vehicles.—An annual tax of $5 is imposed upon the use of all motor vehicles of the kind chiefly used for highway transportation. Consideration was given by the committee to the graduation of the tax upon some such basis as weight or horsepower. The tax is conceived of, however, as essentially a privilege tax and not one to which the principle of ability to pay has any necessary application. It is also designed to reach a large number of individuals who by reason of the personal exemptions have no income-tax liability. In a measure, too, it accomplishes the objectives of the advocates of the imposition of an income tax return filing fee. Graduation, moreover, would entail administrative difficulties and expense out of proportion to the revenue and the equitable considerations involved.

Use of boats.—An annual tax is also imposed on the use of boats. The tax is graduated on the basis of the over-all length of the boat, as follows: 16 or over but not over 28 feet, $5; over 28 but not over 50 feet, $10; over 50 but not over 100 feet, $40; over 100 but not over 150 feet, $100; over 150 but not over 200 feet, $150; over 200 feet, $200.

VI. RADIO BROADCASTING STATIONS AND NETWORKS

Your committee have imposed a tax for calendar years beginning after December 31, 1941, upon every person who during the year operates a radio broadcasting station or engages in network broadcasting.

The desirability of a special tax on radio broadcasting (distinct from a tax on advertising, one medium for which is radio) is indicated by several considerations.

1. Radio broadcasters are the possessors of a valuable privilege awarded to them free of charge, on the condition that they operate in the public interest. Because of the technical limitations of the broadcasting band, the number of commercial broadcasters at any one time is for all practical purposes limited. In consequence, the right to operate a broadcasting station in particular areas carries with it a measure of monopolistic privilege and the opportunity for an extremely profitable investment. Through the exercise of that privilege and the exploitation of that opportunity, many broadcasters

make substantial profits and virtually all broadcasters derive less tangible benefits in the form of publicity and goodwill.

2. The principal operators in commercial broadcasting earn high rates of return on relatively small investments. They possess unusual taxpaying ability which, in view of the Government's present revenue requirements, can properly be subjected to special taxation.

3. Radio broadcasting requires public regulation. Such regulation is provided at public expense, with great benefit to the industry but without any special costs to that industry.

The tax imposed is to be equal to a given percentage of net time sales made during the year. A net time sale is in effect defined as the gross amount received or accrued from the sale of radio time, not including the amount of any commission (not to exceed 15 percent of the gross amount) paid to or deducted by an advertising agency, and minus any amount paid by the taxpayer, pursuant to the sale by him, for broadcasting time to other persons operating radio stations or engaged in network broadcasting.

Taxpayers are divided into three classes, with rates prescribed as follows:

(1) If the net time sales are in excess of $100,000, but not in excess of $500,000, 5 percent.

(2) If the net time sales are in excess of $500,000, but not in excess of $1,000,000, 10 percent.

(3) If the net time sales are in excess of $1,000,000, 15 percent.

The rate prescribed with respect to each class of taxpayer is applicable to the entire amount of the net time sales for the taxable year. The act provides, however, that the liability of a taxpayer in one classification cannot exceed the maximum liability under the next lower classification, plus the amount of the taxpayer's net time sales in excess of the maximum net time sales taxable under the lower classification.

For example, the tax in the case of a taxpayer with net time sales of $500,000 would be at the rate of 5 percent of the net time sales, or $25,000. Except for the above notch provision, if the net time sales were $500,001, the rate would be 10 percent of the net time sales, or $50,001.10. By reason of the notch provision, the tax in the latter case would be $25,000 plus the net time sales in excess of $500,000, or $1, making the tax in the latter case $25,001.

If the net time sales do not exceed $100,000 no tax is imposed.

Detailed Discussion of the Provisions of the Bill

TITLE I—INDIVIDUAL AND CORPORATION INCOME TAXES

SECTION 101. SURTAX ON INDIVIDUALS

The surtaxes apply upon the entire surtax net income and hence the exemption from surtax of the first $4,000 of surtax net income found in existing law is abolished. The lowest surtax bracket rate is 5 percent as compared with 4 percent under existing law. The surtaxes are increased in all brackets up to $750,000 and from that point the rates of existing law are retained. While the rates attributable to surtax net income in excess of $750,000 are not increased, surtaxes payable by taxpayers in these upper brackets are increased by reason of the higher rates in the lower brackets.

SECTION 102. SURTAX ON CORPORATIONS

This section, adding section 16 to the Internal Revenue Code, imposes upon all corporations (including insurance companies), except nonresident foreign corporations and mutual investment companies (the latter being later dealt with in the section), a surtax of 5 percent upon the first $25,000 of corporation surtax net income and 6 percent upon the excess of such income over $25,000. Complementary amendments are made to sections 104 (b), 231 (b), 251 (c) (1), and 261 (a). Corporation surtax net income is defined as net income minus the credit for dividends received provided in section 26 (b) and thus includes United States interest in the tax base.

This section also imposes upon mutual investment companies a surtax upon Supplement Q surtax net income of such companies at rates corresponding to those imposed upon corporations generally.

SECTION 103. INCOME DEFENSE TAX MADE PERMANENT

This section makes permanent the defense tax imposed by section 15 of the Internal Revenue Code as added by section 201 of the Revenue Act of 1940.

SECTION 104. TAX ON NONRESIDENT ALIEN INDIVIDUALS

Under existing law a nonresident alien individual not engaged in business within the United States, and not having an office or place of business therein, is taxed only upon dividends, interest, and other fixed or determinable annual or periodical income from sources within the United States and at the rate of 16½ percent. This rate may be reduced under existing law to 5 percent in the case of a resident of a contiguous country if so provided by treaty with such country. Section 104, amending section 211 (a) (1) of the Code, increases such rate to 25 percent (in effect increased to 27½ percent through the defense tax imposed by section 15), which corresponds to the proportionate increase in burden imposed upon American citizens and residents by the increase in income taxes under the bill.

Under existing law, if such a nonresident alien individual has a gross income of more than $24,000, which is the level at which the average effective rate equals 16½ percent, he is subject to the full normal tax and surtax on his fixed or determinable annual or periodical income. The bill adjusts this figure of $24,000 to $23,800, at which under the bill there is reached approximately an effective rate of 27½ percent. Nonresident aliens engaged in business in the United States, or having an office or place of business therein, are subject to the same rates as apply to American citizens, but only with respect to income from sources within the United States. They will therefore be subject to the increase in tax applicable to American citizens.

The rates thus imposed in the case of nonresident alien individuals do not apply in any case where their application would be contrary to any treaty obligation of the United States (sec. 106). Under the provisions of section 107 these rates may be reduced in the case of residents of any country, including foreign colonies and possessions, in North, Central, or South America, or in the West Indies or of Newfoundland to 5 percent if so provided by treaty with such country. For the purposes of the section the Bermuda Islands are considered as included in the West Indies.

SECTION 105. TAX ON FOREIGN CORPORATIONS

This section amends section 231 of the Code to increase tax imposed upon foreign corporations not engaged in trade or business in the United States and not having an office or place of business therein from 15 to 25 percent (27½ percent with the addition of the 10 percent defense tax). The increase is commensurate with the increase in the tax burden imposed upon domestic corporations.

SECTION 106. WITHHOLDING OF TAX AT SOURCE

This section provides for withholding of the tax at the source (by means of which the tax in the case of nonresident aliens is very largely collected) at the rate of 27½ percent instead of 16½ percent under existing law. The rate of 27½ percent represents the combined effective rate of tax imposed by section 211 (a) (1) (A) after its amendment by section 104 of this bill and by section 15 of the Code (defense tax). The increased rates of withholding will not go into effect until the 10th day after the enactment of the act in order to afford a reasonable period within which withholding agents will be informed of the higher rates applicable to payments made to nonresident aliens or nonresident foreign corporations.

SECTION 107 (TREATY OBLIGATIONS) AND SECTION 108 (REDUCTION IN PURSUANCE OF TREATIES OF RATES OF TAX AND WITHHOLDING ON NONRESIDENT ALIEN INDIVIDUALS RESIDENT IN, AND CORPORATIONS ORGANIZED UNDER LAWS OF, WESTERN HEMISPHERE COUNTRIES)

The effect of these sections and their general relation to the taxation of nonresident alien individuals have already been treated under section 104. Section 108 also authorizes reduction by treaty in the rate of taxation and of withholding with respect to dividends derived from sources within the United States by nonresident foreign corporations organized under the laws of any country in North, Central, or South America, or in the West Indies, or of Newfoundland.

SECTION 109. DEFENSE TAX ON PERSONAL HOLDING COMPANIES AND TRANSFERS TO AVOID INCOME TAX MADE PERMANENT

This section makes permanent the defense tax imposed upon personal holding companies by section 203 of the Revenue Act of 1940 and upon transfers to avoid income tax by section 208 of the Revenue Act of 1940.

SECTION 110. CREDIT FOR DEPENDENTS

Section 110 of the bill amends section 25 (b) (2) of the Internal Revenue Code relative to the credit for dependents.

In the case of the head of a family or a married person living with husband or wife, the existing law provides as a credit against net income a personal exemption of $2,000 plus $400 for each dependent other than husband or wife. Under these provisions, a married person living with husband or wife and having no dependents receives as a maximum credit the personal exemption of $2,000. On the other hand, an unmarried person maintaining a home for a person who also

qualifies as a dependent may receive a personal exemption of $2,000 plus the credit of $400 for such dependent, or a total credit of $2,400. The proposed legislation disallows the credit for one dependent in cases where the taxpayer's status as head of a family is occasioned solely by the existence of one or more of such dependents. The amendment will not affect any case except one in which the taxpayer occupies the status as head of a family solely by reason of the existence of a person for whom he is also entitled to the credit for a dependent. For instance, it will not operate to reduce the credit in the case where a widower is maintaining a home for two children, only one of whom qualifies as a dependent. In such case, the status as head of a family is not occasioned solely by existence of the child in respect of whom the credit of $400 is allowed and consequently the taxpayer may be entitled to the personal exemption of $2,000 plus the $400 credit, or a total of $2,400, the same as under existing law.

SECTION 111. JOINT RETURNS OF HUSBAND AND WIFE

Section 111 of the bill amends sections 25 (a) (4), 25 (b) (3), 47 (c), 47 (e), 51, and 142 (a) of the Internal Revenue Code, and adds new sections 278 and 300 to the code.

The section provides that a husband and wife living together at any time during their "joint taxable year" shall report their income in a single return made by them jointly, and that the tax shall be computed on their aggregate income.

An individual is only required to participate in a joint return if he is "living with husband or wife" at some time during a joint taxable year. This term is intended to have a broad application. It does not require that a husband and wife live under the same roof. They are considered to be living together in any case where they have not separated with intent to abandon permanently the marital relationship, whether or not the husband makes his home at one place and the wife at another place.

It is provided that no joint return shall be made if one spouse is a nonresident alien individual taxable under section 211 (a).

If one spouse has no item of gross income, deduction, or credit appearing on the joint return, such spouse is not required to sign or swear to such return. A return signed by only one spouse is nevertheless a joint return. In order to obtain a foreign-tax credit, in the case of a joint return, both husband and wife must make the required election in the manner prescribed by law.

Either spouse may elect, under rules and regulations prescribed by the Commissioner with the approval of the Secretary, to have the liability for the tax on aggregate income apportioned between the spouses rather than to have such liability joint and several. In such case, the tax upon the aggregate income is apportioned between husband and wife in the ratio which a tax computed upon the separate income of each bears to the sum of such taxes computed upon their separate incomes. If a spouse has elected on the joint return to have the benefits of any deduction or credit, such spouse must compute his separate tax, for purposes of the allocation, in conformity with such election. Appropriate provision has been made to insure that the credits for foreign taxes and for taxes withheld at the source allowable against the tax on aggregate income shall be applicable in

reduction of the tax liability of the spouse to whom they are attributable.

A husband and wife are required jointly to make a return of income on the basis of a "joint taxable year." In general, any taxable year in which a husband and wife live together constitutes such a joint taxable year, but the term does not embrace a taxable year in which the marriage occurs, a taxable year during the whole of which the spouses did not live together, or, if no joint taxable year has previously been established, the taxable year during which a husband and wife previously separated are reconciled. Appropriate provision has been made to deal with the situation which arises in the few cases where one of the spouses makes a return on a fiscal-year basis.

The joint taxable year of a husband and wife is automatically terminated upon the date of their divorce or legal separation or upon the date of the annulment of their marriage; and for the purposes of this section a marriage terminated by annulment is deemed to be a valid marriage from the date of such marriage to the date of the decree of annulment. The termination of the joint taxable year in such case does not, however, alter the annual accounting period of such husband or wife previously established under this section. Separate returns are required for the period from the date of termination of the joint taxable year to the close of such accounting period. A joint taxable year is not terminated automatically by the death of one of the spouses. In such a case the surviving spouse and the decedent's personal representative are required to file a joint return for the full taxable year in which the death occurred. In such a return there is to be included the income of the decedent and the surviving spouse for the entire joint taxable year, and the personal exemption of a husband and wife for an entire taxable year is allowed.

Section 25 (a) (4) (C), relating to the definition of earned net income, is amended to provide that, in the case of a husband and wife making a joint return, the net income of each up to and including $3,000 shall in every case be considered earned income, and that in the case of each the compensation for services actually rendered may be considered as earned income to the extent of $14,000. The earned net income of the husband and the earned net income of the wife are to be added together and 10 percent of such earned net income, but not in excess of 10 percent of the aggregate net income, is allowable as a credit for the purposes of the normal tax.

Section 25 (b) (3) is amended to provide that in every case where a husband and wife are required to make a joint return for any taxable year, they shall be entitled to a personal exemption of $2,000 for such taxable year.

In the case of any short period for which a return is required under the provisions of section 51, section 47 (c) is amended to provide that the income shall be placed on an annual basis, and a complementary amendment is made to section 47 (e) to prevent the reduction of credits in such cases. It is provided that the net income may be placed on an annual basis by a method other than that described in section 47 (c), where the Commissioner determines that such other method would more clearly reflect the income.

Section 142 (a), dealing with the requirements for filing fiduciary returns, is amended to conform to the changes made in section 51 (a) in connection with individual returns.

Section 111 (h) of the bill adds to the Internal Revenue Code a new section designated section 278 and applicable only to cases in which the tax on aggregate income is apportioned under the provisions of section 51 (b). If the Commissioner determines a deficiency or an overpayment in respect of the tax liability of one spouse, the section provides at least 1 year for the adjustment of the tax liability of the other spouse with respect to any overpayment or deficiency which results solely from the reapportionment occasioned by the Commissioner's determination. The 1-year period begins to run from the date of the Commissioner's determination which, in the case of an overpayment, is the date of signing of the schedule of overassessments by the Commissioner and, in the case of a deficiency, is the date of mailing of the statutory notice of deficiency or, if no such notice is mailed, the date upon which the Commissioner signs the schedule of assessments.

The Internal Revenue Code is amended by adding a new section 300, which provides that if there is an addition to the tax on aggregate income for willful neglect in failing to make a return, or for negligence or fraud in connection with a deficiency, in the case of a husband and wife required to make a joint return, and but one spouse is responsible for such neglect, negligence, or fraud, such spouse only shall be liable for the payment of such addition to the tax. If both spouses are responsible in any degree, the liability for such additions to the tax will be joint and several, unless the tax on the aggregate income is apportioned under section 51 (b) (2), in which case the additions will be allocated in accordance with the method of apportionment set forth in that subsection.

The penalty for failure to file a return is a percentage of the entire amount of the tax on aggregate income (computed after the allowance of the foreign tax credit and credit for taxes withheld at source) and the penalty for negligence or fraud is a percentage of the entire amount of the increase in the tax on aggregate income.

The same section also provides that a spouse who has no gross income shall not in any case be liable for an addition to the tax on aggregate income based upon a failure to make a return, since, in such a case, a return will be required solely because of income attributable to the other spouse.

SECTION 112. NON-INTEREST-BEARING OBLIGATIONS ISSUED AT DISCOUNT

This section provides that any taxpayer who owns any non-interest-bearing obligations issued at a discount and redeemable for fixed amounts increasing at stated intervals and who, under the method of accounting used by him in computing his net income, is not permitted to report the increment in value of such obligations as it accrues, may, at his election, treat such increment in value as constituting income to him in the year in which it accrues rather than in the year in which the obligations are disposed of, redeemed, or paid at maturity. Under existing law a taxpayer on the accrual basis who owns, for example, non-interest-bearing United States defense bonds is required to report the increment as it accrues, whereas a taxpayer on the cash basis who owns such defense bonds is required to treat the entire increment in value as being income received in the year of redemption or

maturity. Therefore, with respect to such non-interest-bearing United States defense bonds, the effect of this section is to extend, at the election of the taxpayer, the accrual method to a taxpayer on the cash basis, but only for the limited purpose of reporting the increment in value of such bonds as it accrues.

The election provided for in this section must be made in the taxpayer's return, and may be made for any taxable year beginning after December 31, 1940. When so made with respect to any obligation, the election shall apply also to all obligations of the type described in this section owned by the taxpayer or thereafter acquired by him. The election applies to the taxable year for which such return is filed and is binding for all subsequent taxable years unless the Commissioner permits the taxpayer, subject to such conditions as the Commissioner deems necessary, to change to a different method of reporting income from such bonds. Although the election, once made, is binding upon the taxpayer, it would not apply to a transferee of such taxpayer. For example, A, on the cash basis, buys non-interest-bearing United States defense bonds in 1942 and elects in his return for 1942 to treat the increment in value as being income to him as it accrues. In 1943 A dies and bequeaths such bonds to B, who is also on the cash basis. B is not bound by A's election, but he may, if he so desires, make an election under this section with respect to the increment in value accruing after the acquisition of such bonds by him. If B had previously made an election under this section, such election would apply to the bonds acquired from A.

In any case in which an election is made under this section, the amount considered to accrue in any taxable year to which the election applies is measured by the actual increases in the redemption price occurring in that year. Such amount shall not be considered to accrue ratably between the dates on which the redemption price changes. Thus, if two dates on which the redemption price increases fall within the taxable year and if the redemption price increases in the amount of 50 cents on each such date, the amount deemed to accrue in that year would be $1. The preceding sentence, however, is subject to an exception in the case of the first taxable year to which the election applies. If at the beginning of the first taxable year to which the election applies the taxpayer owns non-interest-bearing bonds of the prescribed character acquired prior thereto, he is required to report in such year, in addition to the increases in the redemption price actually falling within that year, the total of the increases in such price occurring between the date of acquisition and the beginning of such year. Accordingly, if a taxpayer on the calendar year basis makes an election under this section for 1944 and if the taxpayer had purchased his bonds in 1940, he would be required to include in his gross income for the taxable year 1944 the total of the increases in the redemption price of such bonds occurring between the acquisition in 1940 and December 31, 1944.

SECTION 113. INFORMATION RETURNS WITH RESPECT TO FEDERAL OBLIGATIONS

As a consequence of the elimination of tax exemption with respect to Federal obligations brought about by the Public Debt Act of 1941, section 113 of the bill repeals, prospectively, section 147 (d) of the

Internal Revenue Code, which made inapplicable to interest on obligations of the United States those provisions of law relating to securing information at the source. Section 113 also makes a complementary amendment to section 147 (b). Such amendments will enable the Commissioner to prescribe regulations requiring such information with respect to interest on United States obligations as he may deem necessary in the interest of good administration of the income tax laws. Section 113 is to take effect on the day following the enactment of the bill.

SECTION 114. TAXABLE YEARS TO WHICH AMENDMENTS APPLICABLE

The amendments relative to individual and corporation income taxes made by this title, except the amendments made by section 106 (withholding of tax at source) and section 113 (information returns with respect to Federal obligations), are applicable only with respect to taxable years beginning after December 31, 1940.

TITLE II—EXCESS PROFITS TAX

SECTION 201. EXCESS PROFITS TAX RATES AND CREDITS

Section 201 (a) increases the existing excess-profits rates and adds a special rule for the imposition of tax in certain cases where the invested capital credit is used. Section 201 (b) of the bill also amends section 714 of the present law by reducing the credit with respect to corporations using the invested capital method in cases where the invested capital exceeds $5,000,000. In such cases, the invested capital credit is reduced from 8 to 7 percent of the excess of the invested capital over $5,000,000. The technical features of the amendment made by section 201 (a) of the bill are discussed below.

RATES IN GENERAL

Section 710 (a) of the present law, relating to the imposition of the excess-profits tax, is amended by section 201 (a) of the bill to provide for the increased rates of tax, which are set forth in the table in section 710 (a) (1), and for the addition of two new paragraphs constituting section 710 (a) (2) and (3), which set forth the special rule, and limitations thereon, for the imposition of the tax in certain cases where the invested capital credit is used. Section 710 (a) (4), relating to the application of the rates of tax in case of certain exchanges, is the same as section 710 (a) (2) of the present law except for the renumbering of the paragraph to (4).

Section 710 (a) (1) states the general rule for the imposition of the excess-profits tax and the rates under which corporations using the income credit will determine the tax. These rates begin at 35 percent upon adjusted excess profits net income of not more than $20,000 and increase upon a graduated scale to 60 percent upon the amount of adjusted excess profits net income in excess of $500,000. The rates of tax set forth in section 710 (a) (1) represent an increase of 10 percentage points in each rate bracket as compared with the rates under the present law which run from 25 percent to 50 percent.

SPECIAL RULE IN CERTAIN CASES WHERE INVESTED CAPITAL CREDIT IS USED

Section 710 (a) (2) provides a special rule for the measure of the excess-profits tax in the case of corporations which are entitled to use either the invested capital credit or the income credit in computing the tax under section 710 (a) (1) and for which the use of the invested capital credit would be more advantageous. Section 710 (a) (3) limits the application of section 710 (a) (2) to only those cases where the amount of tax computed under the special rule will not be more than the amount of the tax computed under the general rule of section 710 (a) (1) with the use of the income credit.

Section 710 (a) (2) subjects to tax that portion of excess-profits net income (determined under the income credit method) which would be taxed if such corporation used the income credit but which escapes the present excess-profits tax when computed with the use of the invested capital credit. The excess-profits tax imposed upon such corporations by section 710 (a) (2) is therefore composed of the following two parts, of which it is the sum:

(1) An amount determined under section 710 (a) (1) with the use of the credit provided in section 714, plus

(2) Ten percent of the amount, if any, by which—

(a) the adjusted excess-profits net income computed with the use of the credit under section 713 and with the excess-profits credit carry-over which would be available for the taxable year if the excess-profits credit applicable to each of the preceding taxable years for which tax is imposed by subchapter E had been the excess-profits credit computed under section 713, exceeds

(b) the adjusted excess-profits net income computed with the use of the credit under section 714.

The tax computed under section 710 (a) (2) is imposed only upon the corporations specified therein, subject to the further limitation of section 710 (a) (3) that if the tax determined under section 710 (a) (1) is less than the tax determined under section 710 (a) (2), section 710 (a) (2) shall not be applicable. Except where this limitation operates or where the taxpayer disclaims the use of the invested capital credit, every corporation which is qualified to compute its excess-profits credit under either section 713 (income credit) or section 714 (invested capital credit) and which has an adjusted excess-profits net income computed with the use of the income credit but has a lower adjusted excess-profits net income, or none at all, when the invested capital credit is used, is required to compute the excess-profits tax under section 710 (a) (2). Where the use of a credit is referred to in section 710 (a) (2), the reference is to the use of such credit with the excess-profits net income computed in accordance with that credit; for example, the use of the credit under section 714 with the excess-profits net income computed with the adjustments provided in section 711 (a) (2).

An example of the computation of the tax under section 710 (a) (2) is as follows: Suppose a domestic corporation in existence since December 31, 1935, and reporting on a calendar year basis has, for 1941, an excess-profits net income of $355,000 computed under either the income or the invested capital methods, an excess-profits credit

computed under section 713 of $100,000 and an excess-profits credit computed under section 714 of $300,000, with no excess-profits credit carry-over. The adjusted excess-profits net income of the corporation would be determined as follows:

1. Income method:		
Excess-profits net income		$355,000
Less:		
Specific exemption	$5,000	
Excess-profits credit under sec. 713	100,000	
		105,000
Adjusted excess-profits net income computed on the income method		250,000
2. Invested capital method:		
Excess-profits net income		355,000
Less:		
Specific exemption	$5,000	
Excess-profits credit under sec. 714	300,000	
		305,000
Adjusted excess-profits net income computed on the invested capital method		50,000

Since the use of the invested capital credit produces the lower adjusted excess-profits net income, the corporation is subject to the tax computed under section 710 (a) (2). Its excess-profits tax will therefore be $39,000, computed as the sum of the following two amounts:

1. Amount determined under the rates of sec. 710 (a) (1) upon adjusted excess-profits net income computed with the use of the invested capital credit	$19,000
2. 10 percent of the excess of adjusted excess-profits net income computed with the use of the income credit over adjusted excess-profits net income computed with the use of the invested capital credit (10 percent of $200,000, i. e., $250,000 less $50,000)	20,000

In computing the amount under section 710 (a) (2) (B), if there is no adjusted excess-profits net income computed with the use of the invested capital credit, that is, if the invested capital credit, plus the $5,000 exemption plus the carry-over, equals or exceeds the excess-profits net income under section 711 (a) (2), the 10 percent is computed on the excess of the adjusted excess-profits net income under the income method over zero. For example, if in the illustration above, the excess-profits net income were $255,000 instead of $355,000, the excess-profits-tax for 1941 would be 10 percent of $150,000, the excess of the adjusted excess profits net income under the income method ($255,000 less $5,000 less $100,000) over zero. (Since there is no adjusted excess-profits net income computed with the use of the credit under section 714, there is no amount determined under sec. 710 (a) (2) (A) which will constitute a part of the tax.) If, however, there is no adjusted excess-profits net income computed with the use of the income credit, that is, if the income credit, plus the $5,000 exemption plus the carry-over, equals or exceeds the excess-profits net income under section 711 (a) (1), section 710 (a) (2) is not applicable at all.

In computing the adjusted excess-profits net income for the purposes of section 710 (a) (2) (B) (i), the adjusted excess-profits net income is computed with the use of the credit under section 713 and with the

excess-profits credit carry-over which would be available for the taxable year if the excess-profits credit applicable to each of the preceding excess-profits tax taxable years had been the excess-profits credit computed under section 713. The determination of the carry-over for the purposes of this provision may be illustrated by the following example: Assume that in the case of a corporation qualified to use either the credit computed under section 713 or the credit computed under section 714 and reporting its income on the calendar-year basis, the following facts exist:

	1940	1941	1942	1943
Income credit	$80,000	$80,000	$80,000	$80,000
Excess-profits net income under sec. 711 (a) (1)	50,000	45,000	130,000	220,000
Invested capital credit	80,000	150,000	160,000	200,000
Excess-profits net income under sec. 711 (a) (2)	60,000	100,000	200,000	265,000

In computing the corporation's excess-profits tax for 1943, the actual excess-profits credit carry-over computed under section 710 (c) (2) is $40,000.

Under the facts in this illustration, the excess-profits credit which would be available for 1943 if the excess-profits credit applicable to 1940, 1941, and 1942 had been the credit computed under section 713 is $15,000, computed as follows:

Unused excess profits credit for 1942		None
Unused excess profits credit for 1941		$35,000
Less:		
Excess of excess-profits net income for 1942	$130,000	
Over sum of excess-profits credit for 1942 ($80,000) plus unused excess-profits credit for 1940 ($30,000)	110,000	
		20,000
Excess-profits credit carry-over for purposes of sec. 710 (a) (2) (B) (i)		15,000

The corporation's excess-profits tax for 1943 determined under section 710 (a) (2) is $17,000, computed as follows:

1. Excess-profits net income for 1943 under sec. 711 (a) (2)		$265,000
Less:		
Specific exemption	$5,000	
Invested capital credit	200,000	
Excess-profits credit carry-over	40,000	
		245,000
Adjusted excess-profits net income under invested capital method		20,000
Amount determined at rates in sec. 710 (a) (1) (35 percent of $20,000)		7,000
2. Excess-profits net income under sec. 711 (a) (1)		220,000
Less:		
Specific exemption	$5,000	
Income credit	80,000	
Excess-profits credit carry-over	15,000	
		100,000
Adjusted excess-profits net income		120,000
Excess of adjusted excess-profits net income under the income method over adjusted excess-profits net income under the invested capital method ($120,000 less $20,000)		100,000
10 percent of such excess (10 percent of $100,000)		10,000
Total excess-profits tax for 1943, computed under sec. 710 (a) (2) ($7,000 plus $10,000)		17,000

SECTION 202. DISCLAIMER OF CREDIT

Section 712 (c), section 729 (b) (1), and section 741 (b) of the present law are amended to allow a disclaimer of the use of only the credit computed under section 714 (invested-capital credit). The present law allows a disclaimer of either the invested-capital credit or of the income credit in the return of a corporation entitled to use either credit; if the use of a credit is disclaimed, such credit is not applicable for the computation of the excess-profits tax for the taxable year, and the computation and information based on such credit may be omitted from the return. The amendments made by section 202 of the bill are necessitated by the enactment of the special rule of section 710 (a) (2) under which computations of both the adjusted excess-profits net income with the use of the income credit and the adjusted excess-profits net income with the use of the invested-capital credit are required for the determination of the excess-profits tax computed under that section.

SECTION 203. CASES IN WHICH NO RETURN REQUIRED

This section provides a technical amendment to section 729 (b) (2) of the present law in order to require the filing of a return in all cases where the tax is determined under the special rule provided in section 710 (a) (2). The amendment affects only corporations entitled to use either the income credit or the invested-capital credit, which corporations under the present law are not required to file a return if their excess-profits net income computed under the invested-capital method and placed on an annual basis is not greater than $5,000. Under section 729 (b) (2), as amended, such corporations are not required to file a return if their excess-profits net income computed under the income method and placed on an annual basis is not greater than $5,000.

SECTION 204. DEDUCTION OF EXCESS-PROFITS TAX

This section provides that the income tax imposed by chapter 1 of the Internal Revenue Code and by corresponding provisions of prior revenue acts shall not constitute an adjustment in determining excess-profits net income for current and base period taxable years. Section 23 (c) (2) is amended to provide for the deduction of the excess-profits tax in determining income subject to chapter 1 tax. Furthermore, the taxpayer, if using the average-earnings method, has its excess-profits credit increased by the corresponding nondeduction of income taxes in determining its average base period net income.

It is provided that the deduction shall be allowed only in computing the income tax imposed for the taxable year for which the excess-profits tax is levied. By providing that any excess-profits tax paid after the taxable year shall be deemed to have been paid within the taxable year, the same treatment is accorded to taxpayers on the cash basis as is accorded to taxpayers on the accrual basis. It is also provided that the excess-profits tax shall be computed, for the purposes of this deduction, without reduction by the foreign tax credit, and without regard to the adjustments provided for in section 734.

Since the excess-profits net income for a taxable year is primarily the normal-tax net income with certain adjustments, it is necessary to amend section 711 (a) to require an adjustment to normal-tax net income in the form of a disallowance of the deduction of the excess-profits tax. A further adjustment is added to this section in the form of a provision stating that, for the purpose of computing any deduction or credit which is limited to a certain percentage of the taxpayer's net income—e. g., the deduction for charitable contributions or for percentage depletion—such net income (or, in the case of percentage depletion, such net income from the property) shall be computed without regard to the deduction on account of the excess-profits tax. It is also provided under section 718 (c) (3) with reference to taxpayers on the invested-capital basis, that in determining whether distributions were out of earnings and profits of any excess-profits-tax taxable year, the income tax shall be disregarded in the computation. Finally, in determining the presence and extent of the taxpayer's right to the benefits of section 722, dealing with abnormalities, it is provided that the excess-profits tax shall be disregarded.

Section 602 of the Internal Revenue Code, dealing with the computation of net income for the purposes of the declared value excess-profits tax, is amended to provide that the net income shall be determined without regard to the deduction on account of the excess-profits tax imposed by chapter 2E. Section 1202 of the Internal Revenue Code is amended in similar fashion.

It is also provided that, in computing the excess-profits credit carryover, the excess-profits credit and excess-profits net income for taxable years beginning in 1940 shall be computed as if the amendments made by this bill were applicable.

SECTION 205. NEW CAPITAL

This section amends section 718 (a) of the Internal Revenue Code, defining equity invested capital, by adding a new paragraph designated as (6). The effect of the amendment is to increase by 25 percent the amount includible in equity invested capital on account of new capital. The term "new capital" is defined to mean the aggregate of the amount of money and property paid in for stock or as paid-in surplus, or as a contribution to capital, and the amount of taxable stock dividends made, during a taxable year beginning after December 31, 1940, subject to certain limitations. These limitations are intended, in general, to prevent a taxpayer from treating as new capital amounts resulting from mere adjustments in the existing capital, including borrowed capital, of the taxpayer, or of a controlled group of corporations.

The limitations provided by subparagraphs (A), (B), and (C) bar from the concept of new capital the amount of any equity invested capital acquired in an exchange occurring during a taxable year beginning after December 31, 1940, to which section 112 (b) (3), (4), or (5), or so much of section 112 (c), (d), or (e) as refers to section 112 (b) (3), (4), or (5) is applicable, or would be applicable if the term "control" had been defined in section 112 (h) to mean the ownership of stock possessing more than 50 percent of the total combined voting power of all classes of stock entitled to vote or more than 50 percent

of the total value of all classes of stock. These limitations also bar from the concept of new capital any equity invested capital acquired in a transaction between members of a controlled group of corporations as that term is defined in subparagraph (B).

The limitations provided by subparagraph (D) have the effect of reducing the amount of new capital as of any day by the excess of the amount of inadmissible assets held on that day over the amount of such assets held on the first day of the taxpayer's first taxable year beginning after December 31, 1940. This treatment is comparable to the treatment of excluded assets in the computation of daily capital additions under section 713 (g) of the existing law.

The limitations under subparagraph (E) prevent new capital as of any day from exceeding the amount by which the total equity invested capital and borrowed capital as of such day, computed without including the 25-percent increase, exceeds the sum of the equity invested capital and borrowed capital as of the first day of the taxpayer's first taxable year beginning after December 31, 1940. Any increase in new capital is thus prevented where the amount of borrowed capital is reduced by the same amount as that by which the equity invested capital is increased, and no increase in new capital will result from a distribution by a stock dividend of earnings and profits accumulated prior to the first day of a taxable year beginning after December 31, 1940. Subparagraph (E), however, is so worded that there is no reduction to the extent that the sum of the equity invested capital and borrowed capital as of any day is less than the sum of the equity invested capital and borrowed capital as of the first day of a taxable year beginning after December 31, 1940, due to an operating deficit occurring in any taxable year during the intervening period.

The limitations contained in subparagraphs (A) to (E) may be illustrated by the following examples:

EXAMPLE (1), SUBPARAGRAPH (A)

Corporation A issues stock during a taxable year beginning after December 31, 1940, to corporation B in exchange for the transfer of certain property by corporation B. Immediately after the transfer the stock acquired by corporation B has a value of $10,000, the total value of all classes of stock of corporation A then outstanding amounting to $18,000. Corporation A obtains no new capital since the property for which the new stock was issued was obtained in an exchange to which section 112 (b) (5) would be applicable if the term "control" had been defined in section 112 (h) so as to include either the ownership of stock possessing more than 50 percent of the total combined voting power of all classes of stock entitled to vote or more than 50 percent of the total value of all classes of stock outstanding.

EXAMPLE (2), SUBPARAGRAPH (B)

Corporation A owns stock in corporation B, and corporation B owns stock in corporation C. Corporation A transfers property to corporation C in exchange for stock of corporation C. Immediately after the transfer the stock owned by corporation A in corporation B possesses more than 50 percent of the total combined voting power of all classes of stock entitled to vote. Also immediately after such transfer the

stock owned by corporation B in corporation C has a value equal to more than 50 percent of the total value of all classes of stock of corporation C.

Corporation C obtains no new capital through the acquisition of the property from corporation A in exchange for its stock, since immediately after the transfer corporation A, the transferor, and corporation C, the transferee, are members of the same controlled group.

EXAMPLE (3), SUBPARAGRAPH (C)

Corporation A makes a distribution in taxable stock dividends to corporations B and C during a taxable year beginning after December 31, 1940. Immediately after the distribution corporations B and C own stock in corporation A which has a voting power of more than 50 percent of the combined voting power of all classes of stock entitled to vote. Also immediately after the transfer corporation B owns stock in corporation C which has a value of more than 50 percent of the total value of all classes of stock of corporation A. The distribution made by corporation A in the taxable stock dividend does not constitute new capital to corporation A.

EXAMPLE (4), SUBPARAGRAPH (D)

Corporation X makes its excess-profits tax return on the calendar year basis. On July 1, 1941, cash in the amount of $100,000 is paid in for stock. There are no other changes made in either the amount of equity invested capital or borrowed capital at any time during the year 1941. The adjusted basis of inadmissible assets as of January 1, 1941, amounts to $5,000. The adjusted basis of such assets as of July 2, 1941, is increased to $15,000. The new capital of $100,000 is reduced to $90,000 as of July 2, 1941, by subparagraph (D), as shown by the following computation:

$100,000, new capital, minus ($15,000, amount of inadmissibles as of July 2, 1941, minus $5,000, amount of inadmissibles as of July 1, 1941) = $90,000.

EXAMPLE (5), SUBPARAGRAPH (E)

Corporation Y makes its return on the calendar year basis. Its equity invested capital as of January 1, 1941, amounts to $30,000, consisting of money paid in for stock, $20,000, and accumulated earnings and profits, $10,000. Its borrowed capital as of January 1, 1941, consists of bonds outstanding amounting to $15,000, making the total of its equity invested capital and borrowed capital as of January 1, 1941, $45,000. The corporation has no inadmissible assets at any time during the year 1941. On January 2, 1941, the corporation makes a distribution in taxable stock dividends amounting to $5,000. On July 1, 1941, money is paid in for stock amounting to $15,000, and on July 2, 1941, bonds are retired in the amount of $10,000.

The new capital of $20,000 acquired during the year 1941 represented by a distribution in a taxable stock dividend amounting to $5,000 and by money paid in for stock amounting to $15,000 is reduced to $5,000 on July 3, 1941, due to the retirement of $10,000 of bonds on July 2, 1941, and the fact that the stock dividend is paid out of earnings accumulated before January 1, 1941, under the application of subparagraph (E), shown as follows:

The sum of the equity invested capital and borrowed capital on July 3, 1941 (computed without regard to the 25-percent increase for new capital), amounts to $50,000. This sum exceeds the total equity invested capital and borrowed capital on January 1, 1941, amounting to $45,000, by $5,000. Under subparagraph (E) the new capital shall not be more than such excess. The new capital is thus reduced from $20,000 to $5,000.

If the accumulated earnings and profits of corporation Y as of January 1, 1942, are reduced to zero due to the stock dividend distribution of $5,000 made on January 2, 1941, and an operating deficit of $5,000 during the taxable year 1941, the new capital includible in equity invested capital as of January 1, 1942, would be $10,000 instead of $5,000 under the application of subparagraph (E), as shown by the following computation:

New capital as of January 1, 1942, before application of subparagraph (E), $20,000, shall not be more than the excess of $50,000 (total capital on January 1, 1942, before adding 25 percent under section 718 (a) (6)) over $45,000 (total capital on January 1, 1941) less $5,000 (amount by which the accumulated earnings and profits as of January 1, 1941, exceed the accumulated earnings and profits (computed without regard to distributions as of January 1, 1942), or the new capital cannot exceed $50,000 minus ($45,000 minus $5,000), or $10,000.

SECTION 206. CORPORATIONS ENGAGED IN MINING STRATEGIC METALS

Under section 731 of the present law in the case of corporations engaged in mining certain metals, only that portion of adjusted excess-profits net income not attributable to such mining is subject to the excess-profits tax. Section 206 of the bill makes this provision inapplicable to taxable years beginning after December 31, 1940.

SECTION 207. TAXABLE YEARS TO WHICH AMENDMENTS ARE APPLICABLE

The amendments relative to the excess-profits tax made by this title are applicable only with respect to taxable years beginning after December 31, 1940.

TITLE III—CAPITAL STOCK TAX AND DECLARED VALUE EXCESS-PROFITS TAX

SECTION 301. CAPITAL STOCK TAX

The defense tax of section 1200 (c) of the Internal Revenue Code, which increased the capital stock tax from $1 to $1.10 for each $1,000 of the adjusted declared value of the capital stock of corporations, is repealed, and in lieu thereof the capital stock tax is increased from $1 to $1.25. This provision is applicable only with respect to years ending June 30, 1941, and subsequent years.

SECTION 302. DECLARED VALUE EXCESS-PROFITS TAX—DEFENSE TAX MADE PERMANENT

The defense tax with respect to the declared value excess-profits tax is made permanent.

TITLE IV—ESTATE AND GIFT TAXES

SECTION 401. ESTATE TAX RATES

This section increases the rates applicable to the additional estate tax with respect to decedents dying after the date of enactment of this act.

Subsection (c) of this section makes permanent the defense tax on net estates imposed by section 951.

SECTION 402. GIFT TAX RATES

This section increases the rates for computing the gift tax for the calendar year 1942 and each calendar year thereafter. These increases are not to apply to the calendar year 1941. These gift tax rates are 75 percent of the aggregate of the present estate tax rates and the proposed additional estate tax rates provided in section 401 of this act, thus preserving the ratio now existing between the gift tax rates and the aggregate of the estate tax and additional estate tax rates.

Subsection (c) of this section makes permanent the defense tax imposed for 5 years by section 1001 (d) of the Internal Revenue Code.

SECTION 501. 1932 EXCISE TAXES MADE PERMANENT

This section repeals section 3452 of the Internal Revenue Code which now provides that the manufacturers' excise taxes imposed by chapter 29 shall terminate as of July 1, 1945. It thus makes permanent law the provisions imposing such taxes.

SECTION 502. PIPE-LINE TAX

This section strikes out the termination date (July 1, 1945) applicable to the tax on the transportation of oil by pipe line.

SECTION 503. TECHNICAL AMENDMENT

This section revises the title language of subtitle C of the Internal Revenue Code to make it more descriptive of the taxes included within subtitle C.

SECTION 504. BOND TAX

SECTION 505. CONVEYANCE TAX

The two sections strike out the termination date (July 1, 1945) applicable to the bond transfer and conveyance taxes.

SECTION 521. DEFENSE EXCISE TAX RATES MADE PERMANENT

With respect to the taxes listed hereinafter section 521 incorporates, without change, in the applicable provisions of the Internal Revenue Code the defense tax rates imposed by the First Revenue Act of 1940 and makes such rates permanent. These tax rates were originally pre-

scribed by the First Revenue Act of 1940 to be effective for the period prior to July 1, 1945. The particular taxes are those with respect to—

Box seats.
Sales outside box office.
Corporate securities.
Capital-stock issues.
Capital-stock transfers.
Insurance policies.
Passage tickets.
Cigarettes.
Pistols and revolvers.
Fermented malt liquors.
Wholesalers of liquors.
Retailers of liquor.
Brewers.
Wholesalers of malt liquors.
Retailers of malt liquors.
Rectifiers.
Stills.
Firearms, etc.
Electrical energy.
Gasoline.
Lubricating oils.
Transportation of oil by pipe line.
Transfer of bonds.
Conveyances.

SECTION 531. PLAYING CARDS

This section increases the rate of tax on the manufacture of playing cards from 11 cents per pack to 13 cents per pack.

SECTION 532. SAFE-DEPOSIT BOXES

This section increases the rate of tax on the rental of safe-deposit boxes from 11 percent of the amount paid to 20 percent.

SECTIONS 533, 534, LIQUOR

Section 533 amends section 2800 (a) (1) of the Internal Revenue Code, which imposes an excise tax upon distilled spirits and imported perfumes containing distilled spirits at the rate of $4 (and on brandy at the rate of $3.75).

The existing rate of tax upon distilled spirits other than brandy, and upon imported perfumes containing distilled spirits, is $3 per proof gallon; and upon brandy $2.75 per proof gallon. These are the defense-tax rates imposed by section 213 of the Revenue Act of 1940, effective July 1, 1940. The rates proposed by the bill, therefore, represent an increase of $1 per proof gallon over the defense-tax rates. The defense-tax rates are 75 cents per proof gallon over and above the rates in effect prior to July 1, 1940.

Subsection (c) of section 533 makes a complementary amendment to section 2887 of the Internal Revenue Code, which provides for the allowance of drawback of internal-revenue tax upon the exportation of distilled spirits in distillers' original packages.

Subsection (d) will amend section 2800 of the Internal Revenue Code by adding a new subsection "(i)" to provide a floor-stocks tax of $1 per proof gallon on all distilled spirits upon which the tax has been paid and which on the effective date of the new rates are held and intended for sale or for use in the manufacture or production of any article intended for sale. This subsection will have the effect of placing all distilled spirits tax-paid at the old rates and held for the purposes specified on an equal tax basis with other distilled spirits withdrawn and tax-paid at the new rates. It will preclude loss of revenue through the withdrawal and tax payment of large stocks before the new rates become effective. As in prior floor-stocks tax statutes, provision is made for the filing of returns and for deferring payment of the tax upon the submission of satisfactory surety bonds.

This subsection also provides that for the purposes thereof the term "distilled spirits" shall include products produced in such manner that the person producing them is a rectifier within the meaning of section 3254 (g) of the Internal Revenue Code. The object of this provision is to subject to the floor-stocks tax liqueurs, cordials, and similar compounds in the manufacture of which distilled spirits are a constituent.

The existing rates on still wines are as follows: Not more than 14 percent of absolute alcohol, 6 cents per wine gallon; more than 14 percent and not exceeding 21 percent of absolute alcohol, 18 cents per wine gallon; and more than 21 percent and not exceeding 24 percent of absolute alcohol, 30 cents per wine gallon. Section 534 (a) of the bill imposes rates of 8, 24, and 50 cents respectively. The proposed rates represent an increase of 2 cents, 6 cents, and 20 cents per gallon over existing rates.

The existing tax rates on other wines are as follows: Sparkling wines, 3 cents on each one-half pint or fraction thereof; artificially carbonated wines, 1½ cents on each one-half pint or fraction thereof; liqueurs, cordials, and similar compounds, 1½ cents on each one-half pint or fraction thereof. Section 534 (b) of the bill imposes rates of 4 and 2¼ cents respectively. The proposed rates represent an increase of 1 cent on sparkling wines and three-fourths of 1 cent on artificially carbonated wines, and liqueurs, cordials, and similar compounds, over the tax rates on such products.

Subsection (c) of section 534 will amend subchapter F of chapter 26 of the Internal Revenue Code by inserting at the end thereof a new section imposing a floor-stocks tax on all wines on which the tax has been paid and which are held and intended for sale or for use in the manufacture or production of any article intended for sale on the effective date of the new rates. This subsection, like subsection (d) of section 533 in the case of distilled spirits, will have the effect of placing all wines tax-paid at the old rates and held for the purposes specified on a basis of equality, insofar as taxation is concerned, with other wines withdrawn and tax-paid at the new rates.

SECTION 535. TIRES AND TUBES

This section increases the rate of the manufacturers' excise tax (defense tax rates) on tires from 2½ cents per pound to 5 cents per pound and the rate of tax on inner tubes from 4½ cents per pound to 9 cents. It imposes a floor stocks tax on tires and inner tubes held for sale by any person other than the manufacturer, producer, or importer on the date the increased manufacturers' excise tax rates take effect. The floor stocks tax rates are in an amount equal to the increase in the rates of the manufacturers' tax. The floor stocks tax is restricted in its scope to tires and inner tubes for automobiles, trucks, trailers, motorcycles, etc., and will not be applicable to such miscellaneous items as bicycle tires, baby buggy tires, etc. The tax is specifically made applicable to tires and tubes held by automobile manufacturers as, or for, equipment on new automobiles. It is not made applicable to tires and tubes actually on automobiles held by new and second-hand car dealers but is applicable to the stocks of unmounted tires and tubes held by such dealers and by any person, including retailers, for sale. The floor stocks tax does not apply

to any tires and tubes held by a person who must pay the increased manufacturers' excise tax rate on such articles when he sells them.

SECTION 536. EFFECTIVE DATE OF PART III

This section applies to sections 531 to 535, inclusive, and provides, in brief, that the increased tax rates and new taxes imposed by such sections shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of the bill.

SECTION 541. ADMISSIONS TAX

This section subjects to the admissions tax admissions of 10 cents or more at the rate of 1 cent for each 10 cents or fraction thereof. Under existing law the admissions tax applies only to admissions of 21 cents or more. Under this section admissions under 10 cents will be exempt from the tax.

The special treatment under the admissions tax with respect to so-called free or reduced rate admissions now applicable to employees, municipal officers, and children under 12 years of age, is extended to include members of the military or naval forces of the United States and of the Civilian Conservation Corps when in uniform. For example: If the established price is 50 cents and a soldier in uniform is charged only 20 cents, the tax would be 2 cents and not 5 cents. If he is admitted free no tax is payable.

Section 541 repeals section 1701 of the Internal Revenue Code, which allows exemption from the admissions tax to certain organizations.

This section also repeals the exemption provision applicable to "spoken plays" and certain exemption provisions applicable to national parks.

SECTION 542. CABARET, ROOF GARDEN, ETC., TAX

This section revises the base of the present "cabaret" tax. It imposes a tax of 5 percent on amounts paid for admission, refreshment, service, and merchandise at any roof garden, cabaret, or other similar place furnishing a public performance for profit. Liability for the tax is imposed on the proprietor. The tax applies to all amounts paid. Under present law the tax is imposed on the patron under a rather complicated rate of 2 cents (including the defense tax) for each 10 cents of 20 percent of the amount paid if 20 percent of the amount paid exceeds 50 cents.

This section also makes certain amendments to administrative provisions of the code applicable to the "cabaret" tax and other admission taxes.

SECTION 543. CLUB DUES

This section reduces the amount used as a test for determining liability to the tax on club dues from $25 annual dues of an active resident annual member to $10, and redefines the term "dues" to include certain privilege fees and assessments not now subject to the tax.

This section also makes the defense tax rates applicable to dues and initiation fees, as imposed by the first Revenue Act of 1940.

SECTION 544. AUTOMOBILE, TRUCK, BUS, AND PARTS TAX

This section increases the rates of tax on automobile truck chassis, truck bodies, etc., from 2½ percent to 5 percent and brings trailers and semitrailers for trucks within the scope of the tax. Passenger busses which under present law are subject to the higher rate of tax applicable to passenger automobiles have been included within the "truck" classification, and will be subject to the new 5-percent rate.

The rate of tax on passenger automobile chassis and bodies, motorcycles, etc., is increased from 3½ percent to 7 percent. Trailers and semitrailers for such vehicles are made subject to the tax. Subsection (b) of section 544 increases the rate of tax on automobile parts and accessories from 2½ percent to 5 percent. It excludes automobile radios which have heretofore been subject to tax as automobile "parts or accessories." Automobile radios are by section 545 made subject to the manufacturers' tax on radio sets and parts at the rate of 10 percent.

Subsection (c) of section 544 increases the rates of credit allowable under this section to automobile manufacturers with respect to the tires and inner tubes on such vehicles from 2½ to 5 percent in the case of trucks, busses, etc., and 3½ to 7 percent in the case of other automobiles and motorcycles.

Subsection (d) repeals section 3403 (f) of the Internal Revenue Code which would allow a tax adjustment with respect to floor stocks of passenger automobiles, trucks, etc., held by dealers as of the termination date of the present tax on such vehicles. This is done because the termination date of such tax has been deleted and the tax made of a permanent nature. Section 3403 (f), therefore, becomes unnecessary.

SECTION 545. RADIOS, PHONOGRAPHS, RECORDS, AND MUSICAL INSTRUMENTS

Section 3404 of the Internal Revenue Code now imposes a tax on sales by the manufacturer of certain radio components at the rate of 5½ percent of the sale price. Section 545 amends section 3404 of the code so as to impose a tax at the rate of 10 percent on—

- Radio receiving sets.
- Automobile radio receiving sets.
- Combination radio and phonograph sets.
- Phonographs.
- Certain principal components of these articles.
- Phonograph records.
- Musical instruments.

The articles listed have been included within the same section of the code because largely related.

SECTION 546. REFRIGERATORS, AIR CONDITIONERS

Section 3405 of the Internal Revenue Code imposes a tax on sales by the manufacturer of household type mechanical refrigerators and certain principal components of such articles at the rate of 5½ percent of the sales price. Section 546 amends section 3405 of the code to increase the tax rate to 10 percent and to make the tax applicable to the principal commercial types of refrigerators, including such articles as ice-cream cabinets, food and beverage display cases, water coolers, milk-cooler cabinets, and similar articles. In addition, there are

brought within the scope of the tax components of refrigerating apparatus such as compressors, condensers, evaporators, expansion units, absorbers, and controls. However, the tax with respect to, such components is not limited to components for the household, commercial, and industrial type of refrigerator units referred to above. Refrigerating components will be subject to tax regardless of their intended use. For example, components for refrigerator ships and refrigerator cars, and for the refrigerating plants of breweries and cold-storage warehouses will be subject to the tax.

Section 546 also imposes a tax at the rate of 10 percent on the sale by the manufacturer of self-contained air-conditioning units and certain principal components of such articles.

SECTION 547. MATCHES

Section 3409 of the Internal Revenue Code now imposes a tax at the rate of 5½ cents per thousand on certain fancy wooden matches. Section 547 amends section 3409 of the code to also impose a tax at 2 cents per thousand on other types of matches. The types of matches subject to the new tax at 2 cents per thousand include the well-known types of wooden and paper matches now in every day use.

SECTION 548. TELEPHONE, TELEGRAPH, ETC.

Section 548 imposes on telephone conversations, telegraph, cable, and radio dispatches, messages and conversations, for which the charge is more than 24 cents, a tax at the rate of 5 cents for each 50 cents or fraction thereof of the amount paid. Under existing law, the tax on telephone toll service does not apply to charges of less than 50 cents. Telegraph dispatches and messages are now subject to tax at the rate of 5 percent of the amount charged, and cable and radio dispatches and messages at the rate of 10 cents per message.

This section also amends section 3465 (b), which imposes a tax with respect to leased wires and talking circuit special service, to more clearly specify the types of service subject to tax, to impose the tax where the service is rendered within a local exchange area and to also tax like service furnished by companies other than telegraph and telephone companies. The present tax is restricted to service furnished by a telegraph or telephone company.

This section also imposes a tax on amounts paid by subscribers for local telephone service and all other telephone service not otherwise within the tax with respect to telephone toll charges and the tax with respect to leased wires. For example, in addition to local subscribers' service, this tax also applies to telephone toll service where the charge is 24 cents or less. As the tax is imposed only on telephone "service," special provision is made to insure that charges for installation of instruments, poles, switchboards, apparatus, and equipment are not subject to the tax. Although service through coin-operated telephones is not subject to the tax on local subscribers' service it is subject to tax in the case of toll charges of more than 24 cents. Coin-operated telephone service cannot be subject to the tax because of the impracticability of charging the patron 5 percent of 5 cents, and collecting the 5-percent tax through the instrument. As the tax on telephone toll service is collected in multiples of 5 cents, it can be collected through coin-operated telephones.

SECTION 549. INSTALLMENT, ETC., PAYMENTS

Section 549 makes certain changes in section 3441 (c) of the Internal Revenue Code which relates to articles leased or sold under installment or conditional sales contracts. Under section 3441 (c) the taxpayer is permitted to pay the tax as payments are made under the lease or conditional or installment sales contract. The provisions of section 1650 (b) of the Internal Revenue Code is revised and included within section 3441 (c), thus incorporating in the section a provision that where the lease or installment or conditional sales contract was entered into before July 1, 1940 (and delivery made before such date), the rate of tax is to be that in force on June 30, 1940. With respect to the period after June 30, 1940, and before July 1, 1941, the rate of tax applicable is to be that in effect during such period.

Provision is made in this section to take care of leases and conditional sales of articles the sale of which is newly subject to an excise tax by this bill or to an increased rate of tax. Under this section, payments under leases and installment contracts entered into on and after July 1, 1941, will be subject to the increased rate of tax or, if the tax is imposed for the first time by the bill to the tax.

SECTION 550. EFFECTIVE DATE OF PART IV

Section 550 contains provisions respecting the effective date of new taxes, or increases in existing rates of tax, or changes in tax base, effected by sections 541 to 548. With certain exceptions, the provisions are the same as those described in the discussion of section 536, i. e., the first day of the first month which begins more than 10 days after the date of the enactment of the bill. The changes with respect to the "cabaret" tax become effective at 10 a. m. on the effective date for considerations peculiar to that tax. Special provision is made for the effective date of the tax imposed by section 548, with respect to local subscribers' telephone service, in order to give telephone companies (who will collect the tax for the Government) an opportunity to adjust their billing practices to the tax. It was also desired to restrict the application of the tax, as far as is reasonably practicable, to service rendered after the date of the enactment of the act. It is recognized, however, that some local service rendered prior to the date the act is enacted (but billed after such date) will be subject to the tax. It is intended to tax such service.

SECTION 551. SOFT DRINKS

This section imposes a tax on sales by the manufacturer of bottled soft drinks, finished or fountain sirups, and carbonic acid gas.

The tax rate on bottled soft drinks is one-sixth cent per bottle if made to retail at not more than 10 cents; one-third cent per bottle if made to retail at more than 10 cents and not more than 20 cents; one-half cent if made to retail at more than 20 cents. Bottles containing more than 33 fluid ounces are subject to tax at the rate of 6 percent of the manufacturer's sale price.

The rate of tax with respect to finished or fountain sirups is 6 cents per gallon. The rate of tax with respect to carbonic acid gas is 4

cents per pound. These particular rates of tax are as closely equivalent, as may be practicably ascertained, to the rates of tax applicable to bottled soft drinks. That is to say, a soft drink sold at a soda fountain, made with sirup and carbonic acid gas, will bear, in most instances, relatively the same tax burden as a competitive bottled soft drink.

In the case of sirups, no tax is imposed on sirups sold for use by the vendee in the preparation of bottled soft drinks or for consumption by a vendee (not engaged in the preparation of soft drinks) in some use other than the preparation of soft drinks. Similarly, no tax is imposed on the use of sirups by the manufacturer in the preparation of bottled soft drinks, or the consumption of sirups by a manufacturer (who is not engaged in the preparation of soft drinks) in some use other than the preparation of soft drinks. Under these provisions, for example, a baker (providing he does not also use sirups at a soda fountain) can buy sirups "tax-free" from the manufacturer for use in baking. On the other hand, a grocer may not buy finished or fountain sirups "tax-free" for resale to his trade. No provision is made for refund of the tax in the case of sirups resold by any person for consumption other than in the preparation of soft drinks.

In the case of carbonic acid gas, the tax is restricted to carbonic acid gas in gaseous, liquid, or solid form, suitable for use in the preparation of soft drinks. As there are relatively few manufacturers of and dealers in this product, provision is made that sales by dealers will be subject to the tax, but the dealer may purchase such gas tax-free. That is to say, the sale of carbonic acid gas to a dealer in such gas for resale is not subject to the tax. The resale by the dealer is, of course, subject to the tax.

SECTION 552. NEW MANUFACTURERS' EXCISE TAXES

This section imposes taxes on sales by the manufacturer, producer or importer, of the articles listed hereinafter at the rates given:

	Percent
Sporting-goods	10
Luggage	10
Electrical appliances	10
Photographic apparatus	10
Electric signs	10
Business and store machines	10
Rubber products	10
Washing machines	10
Optical equipment	10

In the case of sporting goods, luggage, electrical appliances, photographic apparatus, business and store machines, and optical equipment, the particular articles the sale of which is subject to tax are named. Uniforms and sport clothing are not within the scope of the tax on sporting goods.

In the case of electric signs, the tax applies to articles falling within the general classifications of neon-tube signs, electric signs, and electric advertising devices.

It is recognized that a number of articles falling within the scope of the excise taxes listed herein may also fall within the scope of the jewelry retail sales tax imposed by section 553. Provision is accordingly made that such articles will be subject to the jewelry retail sales tax and not to the manufacturers' excise taxes imposed by this section.

SECTION 553. NEW RETAILERS' EXCISE TAXES

This section adds a new chapter 19 imposing new taxes on retail sales of jewelry, furs, and toilet preparations each at the rate of 10 percent of the price for which the article is sold. The articles falling within the jewelry tax (including clocks, watches, cases, and movements) are articles which have in former jewelry excise taxes been classified as jewelry. There are added flat ware and hollow ware made of gold or silver, or plated. The tax will not apply to religious articles, surgical instruments, or frames or mountings for eyeglasses.

The fur tax is to be imposed on the sale of articles made of fur on the hide or pelt and articles of which such fur is the component material of chief value. This is a classification which has been used in earlier manufacturers' excise taxes with respect to furs.

A tax on the sale at retail of toilet preparations is imposed in place of the existing tax on sales by the manufacturer (imposed by sec. 3401 of the Internal Revenue Code). Provision is made that beauty parlors and barber shops shall make monthly returns of toilet preparations used in the treatment of patrons and the quantity used during the month shall be considered to have been sold at retail by such establishments.

Section 553 contains, or makes applicable, the administrative provisions necessary to the administration of these retail-sales taxes.

This section also provides that the present tax on sales of toilet preparations by the manufacturer (imposed by sec. 3401 of the Internal Revenue Code) shall not apply to articles sold after the effective date of the retail-sales tax. Manufacturer's tax previously paid with respect to articles which will also be subject to the retail-sales tax will not be refunded.

SECTION 554. TRANSPORTATION OF PERSONS, ETC.

This section imposes a tax on the amount paid within the United States for the transportation of persons by rail, motor vehicle, water, or air, within or without the United States. The rate is 5 percent of the amount paid and tax liability is imposed on the person making the payment. Where the amount paid is less than 35 cents the tax does not apply. In the case of commutation or season tickets the tax does not apply if the particular trips the holder of the commutation or season ticket is entitled to make under the ticket are less than 30 miles. For example, a commutation ticket entitling a person to transportation for a certain number of trips between two points is not subject to tax if the distance between the two points is less than 30 miles. These provisions will exempt local street car, bus, and taxi service. Amounts paid for commutation tickets for one month or less are also exempt from tax.

This section also imposes a tax on amounts paid for seating or sleeping accommodations in connection with taxable transportation.

Provision is made that the time for filing returns may be extended for as much as 90 days in order that carriers may have the necessary time to assemble, from widely scattered points, necessary data for making returns. Provision is also made that the tax shall not apply to transportation facilities furnished the United States, to any State or Territory or political subdivision thereof, or the District of Columbia.

Section 554 (d) provides that the stamp tax on steamship passage tickets imposed by section 3469 of the Internal Revenue Code shall not apply to any tickets the purchase of which is subject to tax under the new transportation tax.

SECTION 555. COIN-OPERATED AMUSEMENT AND GAMING DEVICES

This section imposes an occupational tax of $25 per annum per machine on each person who maintains for use, or permits the use of, on premises occupied by him, a coin-operated amusement or gaming device. "Coin-operated amusement or gaming devices" are, briefly, machines which fall within the general classification colloquially referred to as "pin ball" machines and "slot machines." A separate liability is incurred with respect to each machine, but if one such machine is replaced by another, such other machine will not be considerd an additional machine.

SECTION 556. BOWLING ALLEYS, ETC.

This section imposes an occupational tax on persons operating bowling alleys, billiardrooms or poolrooms. The rate of tax is $15 per annum for each bowling alley, billiard table, or pool table. All types of establishments maintaining such equipment, including clubs or social organizations, etc., are subject to the tax. Maintaining such equipment in a private home is not subject to tax.

As in the case of other occupational taxes, the tax year begins July 1 of each year.

However, if after payment of tax and prior to the end of the tax year, additional bowling alleys, or billiard or pool tables, are placed in operation, a supplemental return must be filed and tax paid with respect to the additional equipment for the period beginning with the day of the month in which operation of the additional equipment commenced.

SECTION 557. TAX ON OUTDOOR ADVERTISING

Section 557 imposes an annual special tax on persons engaged in the business of furnishing to others the use of billboards for outdoor advertising. The special tax is based on the number of billboards maintained or controlled by the taxpayer during the tax year, and the rate is graduated according to the number of such billboards in each size classification. There are three classifications taxable, respectively, at $5, $8, and $11, per billboard.

SECTION 558. TAX ON USE OF MOTOR VEHICLES AND BOATS

This section imposes a tax on the use of motor vehicles and boats. In the case of motor vehicles the tax is $5 per annum. In the case of boats the rate of tax ranges from $5 per annum on boats having an over-all length of 16 feet or over but not over 28 feet, to $200 per annum on boats over 200 feet in over-all length. In the case of motor vehicles the tax is to be paid by the person in whose name the motor vehicle is, or is required to be, registered. In the case of boats, the tax is to be paid by the owner of the boat. The effective date of the tax is February 1, 1942. That is, the use of motor vehicles and boats before that date is not subject to tax.

The tax year begins, however, July 1. Persons using motor vehicles after February 1, 1942, would, therefore, pay a proportionate part of the $5 annual tax from the first day of the month in which the use began after February 1, 1942, to July 1, 1942. That is, a person beginning the use of a motor vehicle in the month of February 1942 would pay five-twelfths of the $5 tax. A person beginning the use of a motor vehicle during the month of July 1942 would pay the full $5 tax for the period from July 1, 1942, to June 30, 1943.

The term "motor vehicle" is defined to mean motor vehicles of the kind "chiefly used for highway transportation." Accordingly, no tax is imposed with respect to trailers for motor vehicles.

The term "boat" is defined to mean all boats propelled or equipped for propulsion by machinery, sail, or motor measuring 16 feet or more in over-all length, owned by a citizen or resident of the United States. Hence, for example, a citizen and resident of Canada bringing his boat into territorial waters of the United States would not be liable for the tax. Boats used for trade or commercial fishing and certain boats used for the relief of seamen are not subject to the tax. Liability in the case of a boat does not depend on use for actual transportation. Any form of use is taxable. A boat maintained and available for transportation is in use.

If the tax is paid with respect to any motor vehicle or boat for any year, no further tax for that year is imposed with respect to such vehicle or boat. For example, if a person using an automobile pays a tax with respect to such use and thereafter sells the automobile, the purchaser is not liable for the tax on the use of such automobile for the balance of the particular tax year. However, the tag or other evidence of payment is not transferable from one vehicle or boat to another, so that one who sells or "trades in" a vehicle or boat with respect to which a tax has been paid and procures another must pay a second tax.

In the administrative provisions made applicable to the tax, wide latitude is given to the Commissioner of Internal Revenue with respect to the method of collecting the tax, and for prescribing a form of stamp, sticker, or tag to be affixed to the motor vehicle or boat as evidence that the tax has been paid. Provision is made for allowing the cooperation of the Post Office Department or of private persons to assist in the collection of the tax.

Persons liable for the tax who use or permit the use of a motor vehicle or boat before the tax has been paid shall be guilty of a misdemeanor and be punished by a fine of $25 or 30 days' imprisonment or both. A similar penalty is imposed on a person who uses or operates a motor vehicle or boat which does not bear a stamp, sticker, or tag affixed in the manner provided in the Commissioner's regulations. The use of motor vehicles or boats by the United States, a State, Territory, or political subdivision thereof or the District of Columbia is not subject to tax.

SECTION 559. EFFECTIVE DATE OF PART V

This section provides that the new taxes imposed by sections 551 to 558 will take effect on the first day of the first month which begins more than 10 days after the date of the enactment of the act.

TITLE VI—RADIO BROADCASTING STATIONS AND NETWORKS

SECTION 601. RADIO BROADCASTING STATIONS AND NETWORKS

This section imposes an excise tax for the calendar year 1942 and each succeeding calendar year upon every person who during the year operates a radio broadcasting station or engages in network broadcasting at any time during such calendar year. The tax is equal to a given percentage of net time sales during the year. A net time sale is the gross amount received or accrued from a sale of radio time, not including the amount of any commission to an advertising agency (up to 15 percent of the gross amount), and minus any amounts paid or incurred by the taxpayer, pursuant to the sale of radio time by him, for broadcasting time to other persons operating radio stations or engaged in network broadcasting. Such other persons are in turn liable with respect to the amounts so paid to them. If the taxpayer is on a cash basis of accounting, net time sales are computed with reference to amounts received and amounts paid. In the case of a taxpayer on an accrual basis of accounting, net time sales are computed with reference to amounts accrued and liabilities incurred.

The rates of tax are 5 percent where the net time sales during the year exceed $100,000 and do not exceed $500,000, 10 percent where the net sales exceed $500,000 and do not exceed $1,000,000, and 15 percent where the net sales exceed $1,000,000. The tax is measured in each case by the entire amount of the net time sales but the liability of a taxpayer in one classification cannot exceed the maximum liability under the next lower classification plus the amount of the taxpayer's net time sales in excess of the maximum net time sales taxable under the lower classification. If the net sales do not exceed $100,000 no tax is imposed.

A return for the calendar year must be made prior to March 1 of the succeeding year.

Appendix

MANDATORY JOINT RETURNS

PRIOR ADVOCACY

When the Hill subcommittee met in 1933 to consider "income-tax loopholes," one of the issues raised was that of community property. At that time the staff of the Joint Committee on Internal Revenue Taxation offered a proposal to tax the income to the spouse having management and control of the property. This proposal was defeated in the subcommittee by a very close vote. The subcommittee in its report said:

> The income-tax situation existing in eight States of the Union having community-property laws has been carefully considered. No recommendation in regard thereto is made by your subcommittee in view of the legal difficulties involved.

The full committee held public hearings on the subcommittee report. At that time Dr. Magill appeared, representing the Treasury Department. In this connection, he stated:

> Under the present law, a husband and wife living together may, at their own option, make separate returns or may make a single joint return. If each has an

income of any considerable size, each will ordinarily make a separate return, in order to reduce the normal tax, and, more particularly, the surtaxes which would otherwise be payable. The family income is in fact frequently expended and otherwise treated as a unit; nevertheless, if the husband and wife can so arrange their affairs that the wife is in receipt of a portion of the family income, income taxes can be considerably reduced. In other words, the present privilege of filing separate returns operates to that extent to defeat the progressive rate schedule, particularly in the case of the larger taxpayers. * * *

The Treasury Department therefore recommends that the committee consider whether a husband and wife living together should not be required to file a single joint return, each to pay the tax attributable to his share of the income. Such a provision has long been in force in other countries.

Reference may be made in this connection to the *Hoeper case* (284 U. S. 206), in which the Supreme Court held that a somewhat similar provision in the Wisconsin income-tax statute was invalid. The case is not, however, conclusive for two reasons. In the first place, the Wisconsin law was evidently interpreted by the Court as requiring that the husband should pay the tax on his wife's income. This objection can be eliminated by proper draftsmanship specifying otherwise. In the second place, the Federal Government is not under the same constitutional restrictions as the States in this respect.

In the 1934 hearings (p. 116), Dr. Magill stated in answer to a question by Mr. Cooper as to the status of the law:

My own view is that a provision of this kind is so fair that the likelihood is that the court will uphold it, and I don't see anything in these decisions which would prevent them from so holding.

On June 1, 1937, the President of the United States transmitted to the Congress a letter from the Secretary of the Treasury, dated May 29, 1937, discussing the devices being employed by taxpayers of large incomes to avoid income taxes. Among these devices were the following:

THE DEVICE OF THE CREATION OF MULTIPLE TRUSTS FOR RELATIVES AND DEPENDENTS

Splitting income two ways, between husband and wife, reduces income taxes and leaves the family income intact. Splitting the family income many ways by means of many trusts, all for the same beneficiaries, may effect a much greater saving, while leaving the money actually in the same hands. For the creator of the trust often constitutes himself or his wife as trustee, and thus retains full control over the investment and disposition of the fund itself and of its income.

One thrifty taxpayer has formed 64 trusts for the benefit of four members of his immediate family, and thereby claims to have saved them over $485,000 in 1 year in taxes.

Another thrifty pair have constituted 40 trusts for their relatives, and a prominent lawyer and his wife utilize 16 trusts for the same purpose. The first pair maintains numbered brokerage accounts, and only at the end of the year are the beneficial owners identified. In this way innumerable transactions are carried on, often between accounts, which do not actually affect the beneficial interests of their owners, but which are designed solely to reduce tax liability.

THE DEVICE OF HUSBAND AND WIFE OR FATHER AND CHILDREN PARTNERSHIPS

The purpose of these partnerships, like the multiple trusts, is to split the family income artificially into two parts; or, if the children are taken in, into still smaller fractions.

There are many instances of this kind; but to illustrate the point, it is sufficient to cite the case of a New York brokerage firm which late in 1935 admitted into partnership the four minor children, two boys and two girls, of one of the partners. The tax saving he sought thereby in 1936 amounted to over $50,000.

THE DIVISION OF INCOME BETWEEN HUSBAND AND WIFE IN THE EIGHT COMMUNITY PROPERTY STATES

This is another major cause of revenue loss, which is unjustifiable because obtained at the expense of taxpayers in the 40 States which do not have community-property laws. A New York resident with a salary of $100,000 pays about

$32,525 Federal income tax; a Californian with the same salary may cause one-half to be reported by his wife and the Federal income taxes payable by the two will be only $18,626. The total loss of revenue due to this unjustifiable discrimination against the residents of 40 States runs into the millions.

Dr. Magill, as the representative of the Treasury, in his testimony before the Tax Evasion and Avoidance Committee in 1937, said:

In his statement to the Committee on Ways and Means the Acting Secretary also pointed out that the problem of taxing the incomes of spouses has a broader aspect than that of eliminating the discrimination in favor of husbands and wives living together in community-property States. Since spouses living together in non-community-property States may file separate returns, there is a strong incentive for them to arrange their property holdings in such a way as to realize the greatest possible tax advantage through a division of income or an allocation of losses (p. 310).

And then in answer to the remedy for this situation, Dr. Magill said:

I do not know whether we have got anything essentially different from what was worked out in 1933 and 1934 or not. I have not been able to go over that carefully in the last 2 or 3 weeks. As I say, our net suggestion is that we think it would be desirable over the country as a whole to provide that the incomes of husbands and wives living together should be aggregated and the tax computed with respect to the total (p. 312.)

REPORT OF THE ROYAL COMMISSION (GREAT BRITAIN) ON THE INCOME TAX

The following is taken verbatim from the Report of the Royal Commission (1920):

SECTION VII. THE ASSESSMENT OF MARRIED PERSONS

248. The correct method of assessing married persons has received a great deal of public attention both before and since the appointment of this Commission. The matter has been freely ventilated in the press and has been raised on several occasions in the House of Commons. In the course of our inquiry a considerable volume of evidence on the subject has been presented to us, and we have examined witnesses from representative women's societies; we have also received a large number of letters in connection with this part of our investigation.

249. Speaking generally, the existing position is that husband and wife are regarded as one unit for the purpose of income tax; the income of a married woman living with her husband being deemed to be (for this purpose) the income of the husband, and the husband being responsible for the inclusion of his wife's income in his own return; but this general position is subject to two important modifications.

(*a*) It is in the power of either spouse to elect to be separately assessed, and if that election is made, income tax is assessed, charged, and recovered on the income of the husband and on the income of the wife as if they were not married.

(*b*) If a married woman earns income by her own personal labor, and her husband also earns income unconnected with his wife's business or employment, a separate claim of exemption or abatement can be made in respect of the wife's earned income—provided the joint income of husband and wife does not exceed £500.

250. The option of separate assessment referred to in (a) dates from 1914; it applies to married men equally with married women, but it does not appear to be very widely known; indeed, some of the witnesses

seem to have been unaware of the existence of any such provision. The option is rarely taken advantage of, either because of this prevailing want of knowledge, or because its exercise is not in fact often desired. Although a married woman can make a separate return and be assessed separately from her husband, if she wishes it, the total of their separate liabilities to income tax, if the election is made, does not differ from the combined liability that would have arisen if the option had not been exercised. For example, if husband and wife have incomes of £2,000 and £1,000 a year respectively, and claim to be separately assessed, neither is granted exemption from supertax, but the liability attaching to an income of £3,000 is divided, and charged separately upon husband and wife in proportion to the size of their respective incomes.

251. This position does not satisfy the more extreme advocates of separate assessment; they say that husband and wife should be assessed as though they were separate taxable units—without any regard to the amount of their combined incomes. This contention has been urged upon us by many witnesses, and it forms the burden of the many letters we have received on this subject—mainly written by persons who would themselves benefit by the change proposed. By those who take this view it is claimed that the right to a completely separate assessment is an essential part of separate citizenship, and that the principle of absolute equality in regard to civil obligations should override any principle of taxation. The statement was also made that the present method of assessment imposes a penalty on marriage.

252. On the other hand, it has been contended by several witnesses that this proposal for separate assessment of husband and wife is not reconcilable with a just view of the principle of ability to bear taxation, and that the common menage which is our general mode of social life must be considered in any equitable system of taxation. From the point of view of ability to pay those who oppose separate treatment contend that it would be an anomaly if different sums of income tax were levied on two married couples enjoying equal incomes, merely because in one case the income belonged wholly to one spouse and in the other to both. In the case of a married man with £1,000 a year unearned income, the sacrifice involved by income tax, say £187 10s., may in most households be regarded as borne equally by each spouse, a sacrifice of £93 15s. each. If the husband and wife each have £500 a year there is no such difference in their taxable capacity as would justify a sacrifice of only £60 a year each, which is what would result from treating husband and wife as two separate units.

253. If we conceive a number of households where the wife has a varying amount of separate income, but where the total income (unearned) of the husband and wife is the same, the anomalies that would result from the proposed method of separate assessment will be apparent. Let the total income be assumed to be £1,000.

	£	s.	d.
If the husband has the whole income, the tax paid would be	187	10	0
If the husband has £900 and the wife £100, the tax paid would be	168	15	0
If the husband has £800 and the wife £200, the tax paid would be	162	0	0
If the husband has £700 and the wife £300, the tax paid would be	145	2	6
If the husband has £600 and the wife £400, the tax paid would be	135	15	0
If the husband has £500 and the wife £500, the tax paid would be	120	0	0

The difference in the sums borne by the first and last of these households with identical incomes would thus be £67 10s., a result which appears to us not only inequitable but ridiculous under a system which aims at adjusting the tax in accordance with the principle of ability to pay.

254. Other witnesses referred to the fact that the income of husband and wife under the ordinary conditions of married life is treated as a joint one so far as expenditure is concerned, and argued that it is, therefore, not unfair to make their expenditure for taxation dependent upon their total resources. Under the present law and practice if the husband and wife are living apart their incomes are treated as separate subjects for assessment. It was pointed out that if the allegation is correct that joint assessment is conducive to immorality (an allegation unproved in the course of our inquiry and characterized by one of the women witnesses as being neither reasonable nor probable), the logical, even if not the practicable, remedy is to render liable to joint assessment the income of two unmarried persons living together.

255. It has been stated by the Chancelor of the Exchequer in the House of Commons that the loss which would arise from the separate assessment of husband and wife would be £20,000,000, increasing possibly to £45,000,000 in consequence of avoidance of tax by transfer of income from the husband to the wife. To shift a burden from the shoulders of persons whose joint income is such that their ability to pay permits of its being equitably borne by them, and to place part of that burden, by means of an increased rate, upon the shoulders of other taxpayers, would be, in our opinion, entirely contrary to all principles of equitable assessment.

256. We feel that the demand of those who favor this change is in effect not so much a demand for separate assessment or separate recovery of tax—this they can have under the existing law—as for a diminution in income-tax liability on the ground that part of the joint income happens to belong to the wife. There are two methods of recognizing, by diminished taxation, the obligations of marriage. One is to make an allowance, a wife allowance or marriage allowance, from the joint income; this wife allowance is already granted under the present law, and we have made proposals which will in effect increase it considerably. The other method is, by a complete severance in the treatment of husband and wife for income-tax purposes, to effect a differentiation the results of which will depend entirely on the particular manner in which a given income chances to be distributed between the two members of the household. The first method, seeing that it affects every married couple, is far more likely than the second to encourage marriage.

257. It strikes us as curious that, while ignoring the joint obligation of husband and wife for the purpose of pressing their claim to entirely separate treatment, the same witnesses have asked for increases in the wife and children allowances—which are express recognitions of the joint responsibilities created by marriage. It seems to us that it would be quite illogical, under the same system of taxation, to make an allowance which recognizes the joint responsibilities of husband and wife, and at the same time to grant relief to each of the partners to the union as though they were complete strangers. If separate assessment were granted the marriage allowance should

logically be abolished, and the result would be a shifting of burdens from the rich to the poor, because in the vast majority of cases the wife has either no separate income at all or a separate income less than the amount of the present marriage allowance, and far less than allowance we suggest should be made.

258. The question involved should not be regarded as a political question, but purely as one of finance and revenue, and we are satisfied that it must be decided, not on any theoretical grounds of equality of citizenship, but in accordance with the outstanding principle of "ability to pay," which we recognize as governing all questions of taxation. In the application of this principle, we must regard the social conditions of the country in which the taxation is imposed. The great majority of married persons live together and use their several incomes for common purposes, and this common menage and joint dependency is recognized, to the benefit of the wife, for other purposes of taxation, e. g., legacy and succession duties payable by a widow are less than those payable by a person unrelated to the deceased.

259. The aggregation for income-tax purposes of the income of husband and wife is not dependent upon any medieval conception of the subordination of women; nor is it a question of sex disability, since either partner can claim separate assessment and separate collection. The incomes are aggregated because the law of taxable capacity is the supreme law in matters of taxation, and taxable capacity is, in fact, found to depend upon the amount of the income that accrues to the married pair, and not upon the way in which that income happens fortuitously to be owned by the members of the union. It is beyond question that in the immense majority of cases where the wife has separate means she contributes to the common purse, either by actual merger of her income with her husband's, or by bearing expenses which in less fortunate households fall upon the husband.

260. We have given a great deal of time and attention to this subject and have considered with the utmost care all the arguments that have been put before us, and we have been forced to the conclusion that the grievance complained of is more vocal than real, in other words, that it is a grievance rather than a hardship. We therefore recommend that *the aggregation of the incomes of wife and husband should continue to be the rule.*

261. In paragraph 249 (b) we referred to the exceptional treatment allowed under the existing law to the earned income of a married woman where the joint income does not exceed £500. The effect of this provision, in a case where, for example, husband and wife each earn £250 and have no other income, is that two abatements of £120 each are allowed, as compared with the single abatement of £100 which would be allowed if the whole £500 were earned either by the husband or by the wife. The limit of £500 has been represented to us as too low in present conditions. We agree with this point of view, and recommend that the relief in its present form should be discontinued, and that where the wife has £50 or more of earned income the joint exemption or abatement allowance to a married couple should be increased from £250 (earned) to £300 (earned). Where the wife earns less than £50, the joint allowance for a married couple should be increased from £250 (earned) by the amount of the wife's earnings.

262. In connection with this subject, our attention has been directed to some minor details in regard to which we make the following suggestions: (*a*) *that the revenue should have power of assessment, apportionment, and recovery of the tax against the spouses in respect of their separate incomes where necessary to the collection of the tax;* (*b*) *that the notice to be given by a wife or husband requiring separate assessment should be allowed to be given at any time not later than June 30 in the year of assessment; and* (*c*) *that when husband and wife are separately assessed any relief in respect of their unearned or investment income should be given to the husband and to the wife in proportion to their respective assessable incomes.*

INDIVIDUAL VIEWS OF CERTAIN MEMBERS OF THE WAYS AND MEANS COMMITTEE

The undersigned members of the Ways and Means Committee, while agreeing in the main with the provisions of the bill, desire to express their disagreement and dissent to those provisions which require mandatory joint income-tax returns by husband and wife.

This provision was included in the bill without hearings or without permitting affected parties any opportunity to appear before the committee.

We have read carefully the pamphlet prepared by the staff of the Joint Committee on Internal Revenue Taxation. To us the arguments seem fallacious, and are open to the serious objection that for more than 100 years, in this country at least and elsewhere for longer, that husband and wife have been considered separate entities. While it is true that under the common law all of the property of the wife, even that which she held at the time of marriage, became her husband's, for generations that has not been the rule in our country. We believe the proposal is not only unsound but definitely unconstitutional.

The effect of the mandatory joint returns provision is to merge, for taxation purposes, the income of both spouses, so that the old common-law rule is in effect revived, and the wife is no longer recognized as a separate person.

It is realized by us that this provision will increase the revenue of the Federal Government, but it will do so only on the basis of gross injustice to the womanhood of the country. A simple example will suffice: Two sisters, each acquired $20,000 by inheritance or gift from their father. One of them is married to a husband who is making an additional substantial salary. The other is single. The single daughter will pay tax only upon the income from $20,000. The married daughter and her husband will pay income tax upon the income from the $20,000 plus all of the salary, wages, and other earnings that her husband will receive.

It is not our intention to present the full argument against this discriminatory proposal in these views, but it is our intention to present these views fully and in some detail on the floor of the House during the consideration of the bill.

Frank H. Buck.
Milton H. West.
Knute Hill.
Thomas A. Jenkins.
B. W. Gearhart.

SUPPLEMENTAL VIEWS OF THE REPUBLICAN MINORITY

We, of the Republican minority on the Ways and Means Committee, desire to submit the following supplemental statement with respect to the revenue bill.

ADDITIONAL TAXES IMPERATIVE

The Nation's finances are in a critical state, due to the extravagant spending and reckless borrowing under the New Deal administration during the past 8 years. This condition is now aggravated by the fact that unprecedented outlays for national defense are being required.

It is obvious that a substantial increase in the tax burden is imperative if the credit of the Nation is to be preserved and the defense program is to go forward.

We, therefore, have no alternative but to support the general objective of the bill in seeking to bring revenues and expenditures closer together.

PAST NEW DEAL PRODIGALITY MAKES DEFENSE FINANCING MORE DIFFICULT

Already, emergency defense appropriations total 43 billions of dollars, with some 7 billions more in immediate contemplation. This stupendous expenditure—which may in the future be multiplied several times over—must be financed on top of the doubled cost of the ordinary functions of Government under the New Deal.

As the American people reflect upon the astronomical magnitude of the defense program, they must be painfully aware that the ability of the Government to finance it has been greatly impaired by the prodigality of the New Deal spenders.

These wastrels have engaged in the greatest peacetime orgy of extravagance in all history. In 8 years they have spent as much as it cost to run the Government during the first 131 years of our country's existence, from the administration of George Washington through the administration of Woodrow Wilson, including the World War period.[1]

They have accumulated a series of staggering annual deficits which have piled up the national debt to a point where even the necessary borrowing for defense will seriously jeopardize the public credit.

They have taxed and taxed the people until the available sources of Federal revenue have been all but exhausted. Thirteen major tax measures have been enacted under the New Deal.[2] The American

[1] Such expenditures totaled $66,344,000,000. See the Annual Report of the Secretary of the Treasury.

[2] The 13 tax measures include: (1) The National Relief Administration Act tax levies, 1933; (2) the Agricultural Adjustment Administration processing taxes, 1933; (3) the beer-tax bill, 1933; (4) the liquor-tax-bill, 1934; (5) the Revenue Act of 1934; (6) the pay-roll taxes under the Social Security Act, 1935; (7) the Revenue Act of 1935; (8) the Revenue Act of 1936; (9) the Revenue Act of 1937; (10) the Revenue Act of 1938; (11) the Revenue Act of 1939; (12) the First Revenue Act of 1940 (defense taxes); and (13) the Second Revenue Act of 1940 (excess-profits tax).

people are now loaded down with a burden of taxation—largely in hidden levies—which is 50 percent greater than under the World War revenue acts.[3]

The following table gives the unpleasant facts of the New Deal financial record from July 1, 1933, to June 30, 1941. It shows that in this period the administration has spent 67 billions, collected 40 billions in revenues, accumulated a combined deficit of 27 billions, and increased the public debt to 49 billions, not including over 6 billions of obligations of New Deal agencies which are guaranteed by the United States.

The New Deal fiscal record [1]

	Expenditures	Receipts	Deficits	Public debt
Fiscal year—				
1934	$6,011,000,000	$3,116,000,000	$2,895,000,000	$27,053,000,000
1935	7,010,000,000	3,800,000,000	3,210,000,000	28,701,000,000
1936	8,666,000,000	4,116,000,000	4,550,000,000	33,778,000,000
1937	8,177,000,000	5,029,000,000	3,148,000,000	36,425,000,000
1938	7,239,000,000	5,855,000,000	1,384,000,000	37,165,000,000
1939	8,707,000,000	5,165,000,000	3,542,000,000	40,440,000,000
1940	8,998,000,000	5,387,000,000	3,611,000,000	42,968,000,000
1941	12,710,000,000	7,607,000,000	5,103,000,000	48,961,000,000
	67,518,000,000	40,075,000,000	27,443,000,000	

[1] Figures from 1934 through 1940 taken from the 1942 Budget. Figures for 1941 taken from Treasury press release of July 2, 1941.

Of the total expenditures of 67 billions, only 5 billions represent extraordinary outlays for defense since the emergency program was instituted last year.[4]

Thus it is evident that the finances of the Nation—which are its first line of defense—were in a critical condition before the present emergency began. In other words, the defense program did not precipitate the present crisis in Government financing, but merely made it more acute.

In further substantiation of this fact, we need only to recall that at the time the initial request for emergency-defense funds was made last year, it was found that the New Deal spenders had exhausted the then-existing $45,000,000,000 debt limit. The Congress in establishing this limit several years before had never dreamed that it would ever be reached. It thus became necessary to raise the debt limit to 49 billions in order to get the defense program under way.

This year, Congress was obliged to further increase the limit to 65 billions so that the Treasury could continue to meet the Government's obligations, both civil and military. It now appears that the $65,000,000,000 limit will be reached next year, and it is probable that before the present emergency is over the national debt may easily go to 100 billions. Even this figure, which is nearly equal to the assessed value of all real estate in the United States, may be all too conservative.

[3] Receipts from existing tax laws in the current fiscal year are estimated at $9,400,000,000, not including revenue contemplated from the proposed bill. The highest receipts under the World War revenue acts were in the fiscal year 1920, when collections amounted to $6,241,000,000.

[4] According to the Treasury press release of July 2, 1941, total national-defense expenditures in the period beginning July 1, 1940, and ending June 30, 1941, amounted to $6,048,000,000. This figure, of course, includes the normal expenditures for national defense, which in the preemergency period of 1938 and 1939 averaged slightly over $1,000,000,000 annually. It must be deducted from the total in order to compute the "extraordinary" defense outlays.

The President, in 1933, said that "too often in recent history liberal governments have been wrecked on rocks of loose fiscal policy." In view of the extravagant spending which subsequently occurred under the New Deal administration, it is now pertinent to inquire whether this statement was intended as a warning or as a prophecy. When it was made, only 3 deficits, aggregating 5 billions, had accrued. Since then, the number of successive deficits has grown to 11, and their aggregate amount to 32 billions.

MEANS MUST BE FOUND TO FINANCE DEFENSE AND PRESERVE THE NATION'S CREDIT

If the credit of the Nation should fail, our whole economic and political structure would collapse with it. Therefore, action to strengthen the national finances is urgently required.

During the preemergency period it would have been possible to have brought the Federal Budget into balance, and thereby, have prepared the Nation better to sustain the burdens which now lie ahead. The New Deal administration, however, was apparently more interested in continuing itself in power than in putting the Government's financial house in order.

We of the Republican minority continually warned of the dangers which the country would face if the irresponsible, spendthrift policies of the New Deal were continued. Those dangers are now at hand.

While the New Deal spenders must assume the responsibility for the country's present "financial unpreparedness," the fixation of the blame does not repair the damage. That is the immediate task which is before us.

Probable expenditures in the current fiscal year, ending next June 30, are presently estimated at more than 22 billions, not including recent requests for several billions of supplemental defense appropriations.

The estimate of probable revenues from existing tax laws is 9.4 billions.

Thus a deficit for this year of 13 billions or more is indicated. This is a staggering sum and, to the extent that it is not reduced by economies in expenditure and by additional revenues, it will have to be financed by further borrowing. Even with the enactment of the pending bill, which proposes to increase taxes by 3½ billions to a total of 13 billions, the deficit will probably exceed 10 billions. It should be kept in mind that only 50 to 60 percent of the contemplated additional revenue will actually be collected in the current fiscal year.

To try to place the finances of the Government on a strict pay-as-we-go basis would be utterly impossible at the prospective level of expenditures. Just to pay the interest on the present debt will require all the additional revenue which will be realized from the increase in personal-income taxes under the pending bill.

Notwithstanding the dangers inherent in it, further borrowing apparently cannot be avoided. We should, however, keep it to a minimum by reducing expenditures wherever possible and by imposing such additional taxes as may be levied without unduly burdening the people or crippling production.

Regardless of the fact that our country must enter upon this emergency period with its borrowing and taxing powers dangerously

weakened by the New Deal spenders, the obligations of the Government must, at all costs, be met. It is to be deplored that they can only be met by imposing an onerous additional burden of taxation upon an already heavily taxed people, and by further straining an already strained public credit.

THE NEED FOR ECONOMY IN NONDEFENSE SPENDING

While we must support—on the ground of imperative need—an increase in the tax burden, we at the same time insist that there should be coupled with such increase a mandatory reduction in expenditures for civil purposes. Despite the emergency, these costs have been constantly increasing.

The same critical state of affairs which calls for an increase in taxes also requires that nondefense spending be drastically reduced, and all unnecessary and wasteful expenditures completely eliminated.

If the Government is going "all out" for national defense and "all out" for taxes upon the people, it is compelled both by necessity and by a regard for its obligation to the taxpayers of the country to also go "all out" for economy.

That it should be possible to bring about action along this line seems to be almost universally conceded. The Secretary of the Treasury, in his appearance before the Ways and Means Committee, stated that in his opinion nondefense expenditures could be reduced to the extent of at least $1,000,000,000. Various other estimates of possible savings have been made by responsible individuals and organizations, running as high as 2 billions and over.

The country has waited in vain for the President of the United States to assume leadership in the matter of economy. Without his wholehearted support, there, of course, is little hope of success in achieving it.

It is significant that while the President has sent a special letter to the Committee on Ways and Means stressing the need for additional revenue, he has either neglected, or purposely avoided, the opportunity of sending a similar letter to the Appropriations Committee stressing the need for economy in expenditures. His very silence on this matter offers eloquent testimony as to the underlying cause of our country's present financial insecurity.

We believe that the time is ripe for the reiteration by the President of the wise counsel expressed in his since-forgotten economy message of March 10, 1933, which, in view of its applicability to present conditions, we append to and make a part of this report.

We have often said that we do not feel the administration has a right to call upon the people for more sacrifices through taxes without first making every effort to reduce expenditures to the bone. This is more true today than ever.

We are sure that the American people are ready and willing to make whatever sacrifice is necessary to pay the increased taxes which are required. However, they will do so with more satisfaction, and with better feeling toward their Government, if they are shown that it, too, is making some effort to reduce its spending. They may rightfully resent being called upon to pay increased taxes under the supposition that they are contributing toward national defense, only to

find that their tax dollars are also being used to finance further New Deal extravagance.

Although we have placed emphasis on the need for the curtailment of nondefense spending, it is apparent that there also is much room for economy in connection with some of the phases of the defense program itself. We particularly have in mind the extravagance in the construction of Army cantonments, which has been so rampant as to constitute a national scandal. According to an investigation conducted by one of our colleagues in the House, at least $250,000,000 of the $800,000,000 appropriated for this purpose was wasted.[5] There are other phases of the defense program where appropriations could be spent more wisely and prudently without in any way impairing actual defense needs. It is not too much to ask that the taxpayers of the country be given their money's worth, even in the case of expenditures for defense.

A recent tendency has been for everyone with a pet project for spending the public money to allege that it contributes to national defense, and thus attempt to justify it. The administration itself has freely engaged in this practice, and millions are being spent in the guise of national defense on projects which actually have no remote connection therewith. Hence the mere fact that some item of expenditure carries a defense label is no reason why it should be immune from scrutiny.

We feel that the President could make no greater contribution to the defense and security of the Nation than to assume the necessary leadership in the matter of reducing nondefense expenditures. In such an effort, he would find the people united behind him.

Due to the fact that the Ways and Means Committee has no jurisdiction over appropriation matters, we regret to say that it was precluded by the rules of the House of Representatives from including an economy provision in the tax bill.

REPUBLICAN MINORITY HAS COOPERATED ON NONPARTISAN BASIS IN DRAFTING BILL

We of the Republican minority have cooperated with the Democratic majority on a strictly nonpartisan basis in endeavoring to help them produce the best possible measure under all the circumstances. In this connection, it should be pointed out that the administration has been able to exert less influence in its preparation than on any tax bill since 1933.

Those who, like ourselves, feel that there is much room for its improvement, should always bear in mind that there is no such thing as a good tax bill. None could be devised of the proportions of the pending measure which would satisfy all. The most that can be said in its favor is that it might have been worse. We feel that we have at least made some contribution in helping to keep it from being as bad as it first appeared it might be.

Since there are differences among us as to many of the items, we have not undertaken, in this statement of our views, to comment upon the merits or demerits of specific tax proposals.

[5] See speech of Hon. Albert J. Engel, of Michigan, Congressional Record of June 2, 1941, on subject of construction of Army camps.

Some of our members would have preferred to have seen the income-tax base broadened instead of confined to present taxpayers. Some opposed the joint-return provision. Some voted for a particular tax and others opposed it. Therefore, our respective viewpoints with respect to the separate provision of the bill necessarily will have to be discussed by us individually when the measure reaches the floor of the House.

ALLEN T. TREADWAY.
FRANK CROWTHER.
HAROLD KNUTSON.
DANIEL A. REED.
ROY O. WOODRUFF.
THOMAS A. JENKINS.
DONALD H. MCLEAN.
BERTRAND W. GEARHART.
FRANK CARLSON.
BENJAMIN JARRETT.

APPENDIX

ECONOMY MESSAGE OF MARCH 10, 1933

MESSAGE FROM THE PRESIDENT OF THE UNITED STATES

To the Senate and House of Representatives:

The Nation is deeply gratified by the immediate response given yesterday by the Congress to the necessity for drastic action to restore and improve our banking system. A like necessity exists with respect to the finances of the Government itself which requires equally courageous, frank, and prompt action.

For 3 long years the Federal Government has been on the road toward bankruptcy.

For the fiscal year 1931 the deficit was $462,000,000.

For the fiscal year 1932 it was $2,472,000,000.

For the fiscal year 1933 it will probably exceed $1,200,000,000.

For the fiscal year 1934, based on the appropriation bills passed by the last Congress and the estimated revenues, the deficit will probably exceed $1,000,000,000 unless immediate action is taken.

Thus we shall have piled up an accumulated deficit of $5,000,000,000.

With the utmost seriousness I point out to the Congress the profound effect of this fact upon our national economy. It has contributed to the recent collapse of our banking structure. It has accentuated the stagnation of the economic life of our people. It has added to the ranks of the unemployed. Our Government's house is not in order and, for many reasons, no effective action has been taken to restore it to order.

Upon the unimpaired credit of the United States Government rests the safety of deposits, the security of insurance policies, the activity of industrial enterprises, the value of our agricultural products, and the availability of employment. The credit of the United States Government definitely affects these fundamental human values. It, therefore, becomes our first concern to make secure the foundation. National recovery depends upon it.

Too often in recent history liberal governments have been wrecked on rocks of loose fiscal policy. We must avoid this danger.

It is too late for the leisurely approach to this problem. We must not wait to act several months hence. The emergency is accentuated by the necessity of meeting great refunding operations this spring.

We must move with a direct and resolute purpose now. The Members of the Congress and I are pledged to immediate economy.

I am, therefore, assuming that you and I are in complete agreement as to the urgent necessity, and my constitutional duty is to advise you as to the methods for obtaining drastic retrenchment at this time.

I am not speaking to you in general terms. I am pointing out a definite road.

The last Congress enacted legislation relating to the reorganization and elimination of executive agencies, but the economies thus to be effected are small when viewed in the light of the great deficit for the next fiscal year. They will not meet the pressing needs of our credit situation. Provision for additional saving is essential, and therefore I am asking the Congress today for new legislation laying down broad principles for the granting of pensions and other veteran benefits and giving to the Executive the authority to prescribe the administrative details. We are unanimous in upholding the duty of the Government to care for those who suffer in its defense and for their widows and orphans. The application, however, of this great principle to large numbers of people involves complications—so great that it is almost impossible to draw legislation with sufficient flexibility to provide substantial justice in varying situations. The proposed legislation states the principles and, limited to them, permits the Executive to draw the lines of differentiation necessary to justice.

In accord with the same purpose of substantial justice I request also the enactment of legislation relating to the salaries of civil and military employees of the Government. This would repeal the existing furlough plan, substituting therefore a general principle and authorizing the Executive to make application of this principle. The proper legislative function is to fix the amount of expenditure, the means by which it is to be raised, and the general principles under which the expenditures are to be made. The details of expenditure particularly in view of the great present emergency can be more wisely and equitably administered through the Executive. The flexibility of the measures which I am proposing is not only practical, but proceeds along the road of constitutional government.

Such economies which can be made will, it is true, affect some of our citizens, but the failure to make them will affect all of our citizens. The very stability of our Government itself is concerned and when that is concerned the benefits of some must be subordinated to the needs of all.

When a great danger threatens our basic security it is my duty to advise the Congress of the way to preserve it. In so doing I must be fair not only to the few but to the many. It is in this spirit that I appeal to you. If the Congress chooses to vest me with this responsibility it will be exercised in a spirit of justice to all, of sympathy to those who are in need, and of maintaining inviolate the basic welfare of the United States.

I ask that this legislation go into effect at once without even waiting for the beginning of the next fiscal year. I give you assurance that if this is done there is reasonable prospect that within a year the income of the Government will be sufficient to cover the expenditures of the Government.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
March 10, 1933.

○



Union Calendar No. 350

77TH CONGRESS
1ST SESSION

H. R. 5417

[Report No. 1040]

IN THE HOUSE OF REPRESENTATIVES

JULY 24, 1941

Mr. DOUGHTON introduced the following bill; which was referred to the Committee on Ways and Means

JULY 24, 1941

Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

A BILL

To provide revenue, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act, divided into titles and sections according to the following Table of Contents, may be cited as the "Revenue Act of 1941":

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TITLE I—INDIVIDUAL AND CORPORATION INCOME TAXES

SEC. 101. SURTAX ON INDIVIDUALS.

Section 12 (b) of the Internal Revenue Code is amended to read as follows:

"(b) RATES OF SURTAX.—There shall be levied, collected, and paid for each taxable year upon the surtax net

income of every individual the surtax shown in the following table:

"If the surtax net income is:	The surtax shall be:
Not over $2,000	5% of the surtax net income.
Over $2,000 but not over $4,000	$100, plus 8% of excess over $2,000.
Over $4,000 but not over $6,000	$260, plus 11% of excess over $4,000.
Over $6,000 but not over $8,000	$480, plus 15% of excess over $6,000.
Over $8,000 but not over $10,000	$780, plus 19% of excess over $8,000.
Over $10,000 but not over $12,000	$1,160 plus 22% of excess over $10,000.
Over $12,000 but not over $14,000	$1,600, plus 25% of excess over $12,000.
Over $14,000 but not over $16,000	$2,100, plus 28% of excess over $14,000.
Over $16,000 but not over $18,000	$2,660, plus 31% of excess over $16,000.
Over $18,000 but not over $20,000	$3,280, plus 33% of excess over $18,000.
Over $20,000 but not over $22,000	$3,940, plus 36% of excess over $20,000.
Over $22,000 but not over $26,000	$4,660, plus 39% of excess over $22,000.
Over $26,000 but not over $32,000	$6,220, plus 42% of excess over $26,000.
Over $32,000 but not over $38,000	$8,740, plus 45% of excess over $32,000.
Over $38,000 but not over $44,000	$11,440, plus 48% of excess over $38,000.
Over $44,000 but not over $50,000	$14,320, plus 50% of excess over $44,000.
Over $50,000 but not over $60,000	$17,320, plus 53% of excess over $50,000.
Over $60,000 but not over $70,000	$22,620, plus 55% of excess over $60,000.
Over $70,000 but not over $80,000	$28,120, plus 57% of excess over $70,000.
Over $80,000 but not over $90,000	$33,820, plus 59% of excess over $80,000.
Over $90,000 but not over $100,000	$39,720, plus 61% of excess over $90,000.
Over $100,000 but not over $150,000.	$45,820, plus 62% of excess over $100,000.
Over $150,000 but not over $200,000.	$76,820, plus 63% of excess over $150,000.
Over $200,000 but not over $250,000.	$108,320, plus 64% of excess over $200,000.
Over $250,000 but not over $300,000.	$140,320, plus 66% of excess over $250,000.
Over $300,000 but not over $400,000.	$173,320, plus 68% of excess over $300,000.
Over $400,000 but not over $500,000.	$241,320, plus 70% of excess over $400,000.

"If the surtax net income is:	The surtax shall be:
Over $500,000 but not over $750,000.	$311,320, plus 71% of excess over $500,000.
Over $750,000 but not over $1,000,000.	$488,820, plus 72% of excess over $750,000.
Over $1,000,000 but not over $2,000,000.	$668,820, plus 73% of excess over $1,000,000.
Over $2,000,000 but not over $5,000,000.	$1,398,820, plus 74% of excess over $2,000,000.
Over $5,000,000.	$3,618,820, plus 75% of excess over $5,000,000."

SEC. 102. SURTAX ON CORPORATIONS.

(a) GENERAL RULE.—The Internal Revenue Code is amended by inserting after section 15 a new section to read as follows:

"SEC. 16. SURTAX ON CORPORATIONS.

"(a) CORPORATION SURTAX NET INCOME.—For the purposes of this chapter the term 'corporation surtax net income' means the net income minus the credit for dividends received provided in section 26 (b).

"(b) IMPOSITION OF TAX.—There shall be levied, collected, and paid for each taxable year upon the corporation surtax net income of every corporation (except a corporation subject to the tax imposed by section 231 (a) or Supplement Q) a surtax as follows:

"Upon corporation surtax net incomes not in excess of $25,000, 5 per centum of the amount thereof;

"Upon corporation surtax net incomes in excess of $25,000, $1,250, plus 6 per centum of the excess over $25,000."

(b) SURTAX ON MUTUAL INVESTMENT COMPANIES.—Supplement Q of the Internal Revenue Code (relating to mutual investment companies) is amended by inserting at the end thereof a new section to read as follows:

"SEC. 363. SURTAX ON MUTUAL INVESTMENT COMPANIES.

"(a) SUPPLEMENT Q SURTAX NET INCOME.—For the purposes of this chapter the term 'Supplement Q surtax net income' means the net income, computed without the net operating loss deduction provided in section 23 (s), minus the dividends paid during the taxable year increased by the consent dividends credit provided in section 28. For the purposes of this subsection the amount of dividends paid shall be computed in the same manner as provided in subsections (d), (e), (f), (g), (h), and (i) of section 27 for the purpose of the basic surtax credit provided in section 27.

"(b) IMPOSITION OF TAX.—There shall be levied, collected, and paid for each taxable year upon the Supplement Q surtax net income of every mutual investment company a surtax as follows:

"Upon Supplement Q surtax net incomes not in excess of $25,000, 5 per centum of the amount thereof;

"Upon Supplement Q surtax net incomes in excess of $25,000, $1,250, plus 6 per centum of the excess over $25,000."

(c) SURTAX ON BANKS.—Section 104 (b) of the

Internal Revenue Code (relating to certain banks and trust companies) is amended to read as follows:

"(b) RATE OF TAX.—Banks shall be subject to tax under section 13 or section 14 (b), and under section 16."

(d) SURTAX ON RESIDENT FOREIGN CORPORATIONS.—Section 231 (b) of the Internal Revenue Code (relating to certain foreign corporations) is amended to read as follows:

"(b) RESIDENT CORPORATIONS.—A foreign corporation engaged in trade or business within the United States or having an office or place of business therein shall be taxable as provided in section 14 (c) (1) and section 16."

(e) SURTAX ON CORPORATIONS ENTITLED TO THE BENEFITS OF SECTION 251.—Section 251 (c) (1) of the Internal Revenue Code (relating to the tax on corporations entitled to the benefits of section 251) is amended to read as follows:

"(1) CORPORATION TAX.—A domestic corporation entitled to the benefits of this section shall be subject to tax under section 13 or section 14 (b), and under section 16."

(f) SURTAX ON CHINA TRADE ACT CORPORATIONS.—

(1) SURTAX.—Section 261 (a) of the Internal Revenue Code (relating to the tax on China Trade Act corporations) is amended to read as follows:

"(a) CORPORATION TAX.—A corporation organized under the China Trade Act, 1922, 42 Stat. 849 (U. S. C., 1934 ed., title 15, chap. 4), shall be subject to tax under section 13 or section 14 (b), and under section 16."

(2) CREDIT OF CHINA TRADE ACT CORPORATIONS.—Section 262 (a) of the Internal Revenue Code (relating to credit against net income of China Trade Act corporations) is amended by striking out "sections 13, 14, and 600" and inserting in lieu thereof "sections 13, 14, 16, and 600"; and by striking out "section 13 or 14" wherever occurring therein and inserting in lieu thereof "section 13, 14, or 16".

SEC. 103. INCOME DEFENSE TAX MADE PERMANENT.

(a) The heading of section 15 of the Internal Revenue Code is amended to read as follows: "**SEC. 15. DEFENSE TAX.**"

(b) The first sentence of section 15 of the Internal Revenue Code is amended to read as follows:

"In the case of any taxpayer, the amount of tax under this chapter for any taxable year beginning after December 31, 1940, shall be the tax computed without regard to this section, increased by 10 per centum; except that in the case of a corporation the increase shall be limited to 10 per centum of the tax computed without regard to sections 16 and 363 and without regard to the amendments made by section 101 (a), (b), and (c) of the Second Revenue Act of 1940."

SEC. 104. TAX ON NONRESIDENT ALIEN INDIVIDUALS.

(a) TAX IN GENERAL.—Section 211 (a) (1) (A) of the Internal Revenue Code (relating to tax on nonresident alien individuals not engaged in trade or business within the United States and not having an office or place of business therein) is amended by striking out "15 per centum" and inserting in lieu thereof "25 per centum".

(b) AGGREGATE RECEIPTS MORE THAN $23,800.—Section 211 (a) (2) of the Internal Revenue Code is amended to read as follows:

"(2) AGGREGATE MORE THAN $23,800.—The tax imposed by paragraph (1) shall not apply to any individual if the aggregate amount received during the taxable year from the sources therein specified is more than $23,800."

(c) TAX WHERE GROSS INCOME OF MORE THAN $23,800.—Section 211 (c) of the Internal Revenue Code (relating to tax on certain nonresident alien individuals) is amended by striking out "$24,000" wherever occurring therein and inserting in lieu thereof "$23,800"; and by striking out "15 per centum" and inserting in lieu thereof "25 per centum".

SEC. 105. TAX ON FOREIGN CORPORATIONS.

Section 231 (a) of the Internal Revenue Code (relating to tax on nonresident foreign corporations) is amended by

striking out "15 per centum" and inserting in lieu thereof "25 per centum".

SEC. 106. WITHHOLDING OF TAX AT SOURCE.

(a) Sections 143 (a) and (b) and 144 of the Internal Revenue Code are amended by striking out "15 per centum" wherever occurring therein and inserting in lieu thereof "27½ per centum".

(b) Section 143 (h) of the Internal Revenue Code is repealed.

(c) Subsections (a) and (b) of this section shall apply only with respect to the period beginning with the tenth day after the date of the enactment of this Act.

SEC. 107. TREATY OBLIGATIONS.

No amendment made by this title shall apply in any case where its application would be contrary to any treaty obligation of the United States.

SEC. 108. REDUCTION IN PURSUANCE OF TREATIES OF RATES OF TAX AND WITHHOLDING ON NON-RESIDENT ALIEN INDIVIDUALS RESIDENT IN, AND CORPORATIONS ORGANIZED UNDER LAWS OF, WESTERN HEMISPHERE COUNTRIES.

(a) Section 143 (a) (1) (relating to withholding of tax on tax-free covenant bonds); section 143 (b) (relating to withholding of tax on dividends, rents, etc.); section 144

(relating to payment of corporation income tax at source); section 211 (a) (1) (relating to tax on nonresident alien individuals); and section 231 (a) (1) (relating to tax on nonresident foreign corporations) of the Internal Revenue Code are amended by striking out "a contiguous country" and inserting in lieu thereof "any country in North, Central, or South America, or in the West Indies, or of Newfoundland".

(b) Section 211 (a) (3) of the Internal Revenue Code is amended to read as follows:

"(3) RESIDENTS OF CERTAIN COUNTRIES.—The provisions of paragraph (2) shall not apply to a resident of any country in North, Central, or South America, or in the West Indies, or of Newfoundland, so long as there is in effect with such country a treaty which provides otherwise."

(c) Section 211 (c) (4) of the Internal Revenue Code is amended to read as follows:

"(4) This subsection shall not apply to a resident of any country in North, Central, or South America, or in the West Indies, or of Newfoundland, so long as there is in effect with such country a treaty which provides otherwise."

SEC. 109. DEFENSE TAX ON PERSONAL HOLDING COMPANIES AND TRANSFERS TO AVOID INCOME TAX MADE PERMANENT.

(a) PERSONAL HOLDING COMPANIES.—Section 500 (b) of the Internal Revenue Code is amended by striking out "and before January 1, 1945," and by striking out in the heading "FOR FIVE YEARS".

(b) TRANSFERS TO AVOID INCOME TAX.—Section 1250 (b) of the Internal Revenue Code is amended by striking out "and before July 1, 1945" and by striking out in the heading "FOR FIVE YEARS".

SEC. 110. CREDIT FOR DEPENDENTS.

Section 25 (b) (2) of the Internal Revenue Code (relating to credit for dependents) is amended to read as follows:

"(2) CREDIT FOR DEPENDENTS.—

"(A) Allowance in General.—$400 for each person (other than husband or wife) dependent upon and receiving his chief support from the taxpayer if such dependent person is under eighteen years of age or is incapable of self-support because mentally or physically defective.

"(B) Exception for Certain Heads of Families.—If the taxpayer would not occupy the status of head of a family except by reason of there being

one or more dependents for whom he would be entitled to credit under subparagraph (A), the credit under such subparagraph shall be disallowed with respect to one of such dependents."

SEC. 111. JOINT RETURNS OF HUSBAND AND WIFE.

(a) REQUIREMENT.—Section 51 (a) and (b) of the Internal Revenue Code is amended to read as follows:

"(a) REQUIREMENT.—A return stating specifically the items of gross income and the deductions and credits for the taxable year allowed under this chapter and such other information for the purpose of carrying out the provisions of this chapter as the Commissioner with the approval of the Secretary may by regulations prescribe shall be made in respect of the following individuals—

"(1) Every individual who is single, if having a gross income for the taxable year of $800 or over. In the case of such an individual the return shall be made by him under oath.

"(2) Every individual who has lived with husband or wife at any time during the taxable year, if such taxable year is a joint taxable year under subsection (c), and if such husband and wife have for the taxable year an aggregate gross income of $2,000 or over. In all cases under this paragraph the return shall be made as provided in subsection (b); except that if one of such

spouses is a nonresident alien individual who is taxable under section 211 (a), a separate return shall be made under oath by each spouse, except as otherwise provided under section 217 (b).

"(3) Every individual who, though married, has not lived with husband or wife at any time during the taxable year, if having a gross income for the taxable year of $800 or over. In the case of such an individual the return shall be made by him under oath.

"(4) Every individual who has lived with husband or wife at any time during the taxable year, if such taxable year is not a joint taxable year described in subsection (c), if having a gross income for the taxable year and if the aggregate gross income of such husband and wife for the taxable year is $1,600 or over. In the case of such an individual the return shall be made by him under oath. If the taxable years of husband and wife are identical their income may be included in a single return made by them jointly, but no joint return may be made if either the husband or wife is a nonresident alien individual taxable under section 211 (a). In the event such a single return is made by husband and wife jointly, the return shall be signed and sworn to by each, the tax shall be computed on the aggregate income, and the liability with respect to the tax shall be joint and several.

"(b) HUSBAND AND WIFE.—In the case of a husband and wife required by subsection (a) (2) to make a return under this subsection the income of each shall be included in a single return, and the tax shall be computed on the aggregate income. Such return shall be signed and sworn to by each spouse with respect to whom an item of gross income or a deduction or credit (other than the personal exemption) appears on the return. The liability with respect to the tax so computed—

"(1) shall be joint and several; or

"(2) at the election of either spouse, made under rules and regulations prescribed by the Commissioner with the approval of the Secretary, shall be apportioned between the spouses. There shall be allocated to each spouse that portion of the tax upon the aggregate income (computed before the application of sections 31 and 32) which bears the same ratio to such tax as a tax computed upon the separate income of each spouse bears to the sum of such separate taxes. For such purpose, the separate tax of each spouse shall be the tax computed under this chapter, before the application of sections 31 and 32, as if such spouse were required to make a separate return, except that the personal exemption under section 25 (b) (1) shall be $1,000. The portion of the tax (upon the aggregate income) allocable to

each spouse shall be reduced by so much of the credits under sections 31 and 32 allowable against the tax (upon the aggregate income) as is attributable, under rules and regulations prescribed by the Commissioner with the approval of the Secretary, to taxes paid by such spouse and taxes withheld at the source on the income of such spouse. If the sum of the credits so allocated to either spouse exceeds the portion of the tax (upon the aggregate income) allocable to such spouse, such excess shall be allocated to the other spouse.

"(c) JOINT TAXABLE YEAR OF HUSBAND AND WIFE.—[illegible]e case of an individual who—

"(1) married before January 1, 1941, and who has lived with husband or wife at any time during the twelve-month period: beginning with the day after the close of the last taxable year of the husband which began before January 1, 1941; or beginning with the day after the close of the last taxable year of the wife which began before January 1, 1941, if such year closes later than such taxable year of the husband; or

"(2) married after December 31, 1940, and who has lived with husband or wife at any time during the twelve-month period: beginning with the day after the close of the taxable year of the husband during which the marriage occurred; or beginning with the day after

the close of the taxable year of the wife during which the marriage occurred, if such year closed later than such taxable year of the husband; or

"(3) is married but has not lived with husband or wife during either of the twelve-month periods specified in paragraph (1) or paragraph (2), but has lived with husband or wife at any time during the twelve-month period: beginning with the day after the close of the taxable year of the husband during any portion of which they lived together; or beginning with the day after the close of the taxable year of the wife during any portion of which they lived together, if such year closed later than such taxable year of the husband;

the beginning of such twelve-month period shall constitute the beginning of the annual accounting period of such individual. Such twelve-month period and each succeeding twelve-month period (or, in the event of termination under subsection (d), any shorter period) at any time during which such individual lives with husband or wife shall constitute a joint taxable year of such husband and wife. If such husband and wife jointly change their accounting period pursuant to section 46, the period of less than twelve months in respect of which a return is required to be made pursuant to section 47, and each succeeding twelve-month period, at any time during which such husband and wife live together

shall constitute a joint taxable year of such husband and wife.

"(d) TERMINATION OF TAXABLE YEAR.—The joint taxable year of a husband and wife shall be terminated upon the date of their divorce or legal separation or upon the date of the annulment of their marriage."

(b) REDESIGNATION OF SUBSECTION LETTERS.—Section 51 (c), (d), and (e), are redesignated as (e), (f), and (g).

(c) EARNED INCOME CREDIT.—Section 25 (a) (4) (C) of the Internal Revenue Code (relating to definition of earned net income) is amended to read as follows:

"(C) 'Earned net income' means the excess of the amount of the earned income over the sum of the earned income deductions.

"(D) Except as provided in subparagraph (E), if the taxpayer's net income is not more than $3,000, his entire net income shall be considered to be earned net income, and if his net income is more than $3,000, his earned net income shall not be considered to be less than $3,000; and in no case shall the earned net income be considered to be more than $14,000.

"(E) For the purpose of computing the normal tax upon the aggregate income of the husband and wife in the case of a single return made by them

jointly, the earned net income shall be the sum of the earned net incomes of the spouses computed separately."

(d) PERSONAL EXEMPTION OF HUSBAND AND WIFE.—Section 25 (b) (3) is amended by inserting after the heading the following: "(A) General Rule.—",

and by inserting at the end thereof the following:

"(B) Husband and Wife.—A husband and wife required to make a single return jointly for any taxable year under the provisions of section 51 (b) shall be entitled in every case to a personal exemption of $2,000 for such taxable year."

(e) INCOME PLACED ON ANNUAL BASIS.—Section 47 (c) of the Internal Revenue Code is amended by inserting after heading:

"(1) CHANGE IN ACCOUNTING PERIOD.—"

and by inserting at the end thereof the following:

"(2) RETURN FOR PERIOD OF LESS THAN TWELVE MONTHS.—For the purposes of determining whether a return for a period of less than twelve months is required under section 51, the gross income shall be placed on an annual basis by multiplying the amount thereof by the number of days in the twelve months ending with the close of such period and dividing by the number of days included in the period for which the return is made. If a

return is required the net income (computed on the basis of the period for which such return is required) shall be placed on an annual basis in the same manner. The tax shall be such part of the tax computed on such annual basis as the number of days in such period is of the number of days in the twelve months ending with the close of such period.

"(3) ALTERNATIVE METHOD.—If the Commissioner determines that a method, other than the method prescribed under paragraphs (1) and (2), for placing the net income on an annual basis would more clearly reflect the income, such other method shall be used."

(f) SHORT PERIOD RETURNS—REDUCTION OF CREDITS.—Section 47 (e) of the Internal Revenue Code is amended to read as follows:

"(e) REDUCTION OF CREDITS AGAINST NET INCOME.—In the case of a return made for a fractional part of a year, except where the net income is placed on an annual basis, the personal exemption and credit for dependents shall be reduced respectively to amounts which bear the same ratio to the full credits provided as the number of months in the period for which return is made bears to twelve months."

(g) FIDUCIARY RETURNS.—Section 142 (a) is

amended by striking out paragraphs (1) and (2) and inserting in lieu thereof the following:

"(1) Every individual required to make a return under the provisions of section 51 (a);".

Such section 142 (a) is amended by redesignating paragraphs (3), (4), and (5) as (2), (3), and (4), respectively.

(h) OVERPAYMENTS AND DEFICIENCIES IN CASE OF JOINT RETURNS.—Supplement L of subchapter C of chapter 1 of the Internal Revenue Code is amended by inserting at the end thereof the following new section:

"SEC. 278. JOINT RETURNS.

"In any case in which a single return is made by a husband and wife jointly and the tax on aggregate income is apportioned in accordance with the provisions of section 51 (b) (2), if the Commissioner determines a deficiency or overpayment in respect of the tax liability of one spouse, any overpayment or deficiency in respect of the tax liability of the other spouse resulting from the reapportionment of the tax necessary by reason of such determination, may be refunded or credited, or assessed and collected, as the case may be, as if not less than one year remained from the date of such determination before the expiration of the period of limitations upon filing claim for refund or assessment for such taxable year."

(i) PENALTIES.—Supplement M of subchapter C of chapter 1 of the Internal Revenue Code is amended by inserting at the end thereof the following new section:

"SEC. 300. ADDITIONS TO TAX IN CASE OF JOINT RETURNS.

"(a) If, in the case of a husband and wife making a return jointly under the provisions of section 51 (b), there is an addition to the tax under section 291 or section 293, and only one spouse is responsible for the willful neglect, negligence, or fraud, which forms the basis for such addition to the tax, only such spouse shall be liable for the payment of such addition to the tax.

"(b) A spouse who has no gross income shall not in any case be liable for an addition to the tax based upon a failure to file a return."

SEC. 112. NONINTEREST-BEARING OBLIGATIONS ISSUED AT DISCOUNT.

Section 42 of the Internal Revenue Code (relating to period in which items of gross income are included) is amended by inserting before the first sentence thereof "(a) GENERAL RULE.—", and by inserting at the end of such section a new subsection to read as follows:

"(b) NONINTEREST-BEARING OBLIGATIONS ISSUED AT DISCOUNT.—If, in the case of a taxpayer owning any noninterest-bearing obligation issued at a discount and redeemable for fixed amounts increasing at stated intervals, the in-

crease in the redemption price of such obligation occurring in such taxable year does not (under the method of accounting used in computing his net income) constitute income to him in such year, such taxpayer may, at his election made in his return for any taxable year beginning after December 31, 1940, treat such increase as income received in such taxable year. If any such election is made with respect to any such obligation, it shall apply also to all such obligations owned by the taxpayer at the beginning of the first taxable year to which it applies and to all such obligations thereafter acquired by him and shall be binding for all subsequent taxable years, unless upon application by the taxpayer the Commissioner permits him, subject to such conditions as the Commissioner deems necessary, to change to a different method. In the case of any such obligations owned by the taxpayer at the beginning of the first taxable year to which his election applies, the increase in the redemption price of such obligations occurring between the date of acquisition and the first day of such taxable year shall also be treated as income received in such taxable year."

SEC. 113. INFORMATION RETURNS WITH RESPECT TO FEDERAL OBLIGATIONS.

(a) Section 147 (d) of the Internal Revenue Code (exempting interest on obligations of the United States from information requirement) is repealed.

(b) Section 147 (b) of the Internal Revenue Code is amended by striking out "and (2)" and inserting in lieu thereof "(2) in the case of payments of interest upon obligations of the United States or any agency or instrumentality thereof, and (3)".

(c) Subsections (a) and (b) of this section shall take effect upon the day after the date of the enactment of this Act.

SEC. 114. TAXABLE YEARS TO WHICH AMENDMENTS APPLICABLE.

The amendments made by this title (except sections 106 and 113) shall be applicable only with respect to taxable years beginning after December 31, 1940.

TITLE II—EXCESS PROFITS TAX

SEC. 201. EXCESS PROFITS TAX RATES AND CREDITS.

(a) RATES.—Section 710 (a) of the Internal Revenue Code is amended to read as follows:

"(a) IMPOSITION.—

"(1) GENERAL RULE.—There shall be levied, collected, and paid, for each taxable year, on the adjusted excess profits net income, as defined in subsection (b), of every corporation (except a corporation exempt under section 727) the tax shown in the following table:

"If the adjusted excess profits net income is:	The tax shall be:
Not over $20,000	35% of the adjusted excess profits net income.
Over $20,000, but not over $50,000	$7,000, plus 40% of excess over $20,000.
Over $50,000, but not over $100,000	$19,000, plus 45% of excess over $50,000.
Over $100,000, but not over $250,000.	$41,500, plus 50% of excess over $100,000.
Over $250,000, but not over $500,000.	$116,500, plus 55% of excess over $250,000.
Over $500,000	$254,000, plus 60% of excess over $500,000.

"(2) SPECIAL RULE IN CERTAIN CASES WHERE INVESTED CAPITAL CREDIT IS USED.—In the case of a taxpayer entitled to have its excess profits credit computed under either section 713 (income credit) or section 714 (invested capital credit), if the use of the credit under section 714 is more advantageous to the taxpayer, the tax imposed by this section shall be the sum of—

"(A) an amount determined under paragraph (1) of this subsection with the use of the credit provided in section 714, plus—

"(B) 10 per centum of the amount, if any, by which—

"(i) the adjusted excess profits net income computed with the use of the credit under section 713 and with the excess profits credit carryover which would be available for the taxable

year if the excess profits credit applicable to each of the preceding taxable years for which tax is imposed by this subchapter had been the excess profits credit computed under section 713, exceeds

"(ii) the adjusted excess profits net income computed with the use of the credit under section 714.

"(3) LIMITATION ON APPLICATION OF SPECIAL RULE.—If the tax under paragraph (2) is greater than the amount determined, with the use of the credit provided in section 713, under paragraph (1) of this subsection, the tax shall be the amount so determined under paragraph (1).

"(4) APPLICATION OF RATES IN CASE OF CERTAIN EXCHANGES.—If the taxpayer's highest bracket amount for the taxable year computed under section 752 (relating to certain exchanges) is less than $500,000, then in the application of the table in paragraph (1) of this subsection to such taxpayer, in lieu of each amount, other than the percentages, specified in such table, there shall be substituted an amount which bears the same ratio to the amount so specified as the highest bracket amount so computed bears to $500,000."

(b) EXCESS PROFITS CREDIT—BASED ON INVESTED

CAPITAL.—Section 714 of the Internal Revenue Code, as amended, is amended to read as follows:

"SEC. 714. EXCESS PROFITS CREDIT—BASED ON INVESTED CAPITAL.

"The excess profits credit, for any taxable year, computed under this section, shall be the amount shown in the following table:

"If the invested capital for the taxable year, determined under section 715, is:	The credit shall be:
Not over $5,000,000	8% of the invested capital.
Over $5,000,000	$400,000, plus 7% of the excess over $5,000,000."

SEC. 202. DISCLAIMER OF CREDIT.

(a) Section 712 (c) of the Internal Revenue Code (relating to disclaimers of excess-profits credit) is amended to read as follows:

"(c) EFFECT OF DISCLAIMER OF CREDIT.—If the taxpayer states in its return for the taxable year under this subchapter that it disclaims the use of the credit computed under section 714, such credit shall not, for the purposes of the internal revenue laws, be applicable to the computation of the tax under this subchapter for such taxable year."

(b) The last sentence of section 729 (b) (1) is amended to read as follows: "If the taxpayer states in such return that it disclaims the use of the credit computed under section 714 in the computation of the tax under this subchapter for the taxable year, the computation and informa-

tion based on such credit may be omitted from the return."

(c) Section 741 (b) of the Internal Revenue Code (relating to disclaimers of excess-profits credit) is amended to read as follows:

"(b) EFFECT OF DISCLAIMER OF CREDIT.—If the taxpayer states in its return for the taxable year under this subchapter that it disclaims the use of the credit computed under section 714, such credit shall not, for the purposes of the internal revenue laws, be applicable to the computation of the tax under this subchapter for such taxable year."

SEC. 203. CASES IN WHICH NO RETURN REQUIRED.

Section 729 (b) (2) of the Internal Revenue Code is amended to read as follows:

"(2) NO RETURN REQUIRED.—Notwithstanding subsection (a), no return under section 52 (a) shall be required to be filed under this subchapter:

"(A) By any taxpayer entitled to have its excess-profits credit computed under either section 713 or section 714 for any taxable year for which its excess-profits net income, computed with the adjustments provided in section 711 (a) (1) and placed on an annual basis as provided in section 711 (a) (3), is not greater than $5,000; or

"(B) By any taxpayer not entitled to have its excess-profits credit computed under section 713

for any taxable year for which its excess-profits net income, computed with the adjustments provided in section 711 (a) (2) and placed on an annual basis as provided in section 711 (a) (3), is not greater than $5,000."

SEC. 204. DEDUCTION OF EXCESS-PROFITS TAX.

(a) AMENDMENT OF SECTION 23 (c).—Section 23 (c) of the Internal Revenue Code (relating to the deduction of taxes in computing net income) is amended to read as follows:

"(c) TAXES GENERALLY.—

"(1) ALLOWANCE IN GENERAL.—Taxes paid or accrued within the taxable year, except—

"(A) Federal income taxes;

"(B) war-profits and excess-profits taxes imposed by Title II of the Revenue Act of 1917, Title III of the Revenue Act of 1918, Title III of the Revenue Act of 1921, section 216 of the National Industrial Recovery Act, or section 702 of the Revenue Act of 1934, or by any such provisions as amended or supplemented;

"(C) income, war-profits, and excess-profits taxes imposed by the authority of any foreign country or possession of the United States; but this deduction shall be allowed in the case of a taxpayer

who does not signify in his return his desire to have to any extent the benefits of section 131 (relating to credit for taxes of foreign countries and possessions of the United States) ;

"(D) estate, inheritance, legacy, succession, and gift taxes; and

"(E) taxes assessed against local benefits of a kind tending to increase the value of the property assessed; but this paragraph shall not exclude the allowance as a deduction of so much of such taxes as is properly allocable to maintenance or interest charges.

"(2) EXCESS-PROFITS TAX UNDER CHAPTER 2E—SPECIAL RULES.—For the purposes of this subsection, in the case of the excess-profits tax imposed by Subchapter E of Chapter 2—

"(A) The deduction shall be limited to the tax imposed for the taxable year, but any portion of such tax paid after the taxable year shall be considered as having been paid within the taxable year;

"(B) No reduction in such tax shall be made by reason of the credit for income, war-profits, or excess-profits taxes paid to any foreign country or possession of the United States;

"(C) Such tax shall be computed without regard to the adjustments provided in section 734; and

"(D) Such tax, in the case of a consolidated return under section 730, shall be allocated to the members of the affiliated group under regulations prescribed by the Commissioner, with the approval of the Secretary."

(b) AMENDMENT OF SECTION 102 (d).—Section 102 (d) (1) (A) of the Internal Revenue Code (relating to the deduction of taxes in computing section 102 net income) is amended to read as follows:

"(A) Taxes.—Federal income, war-profits, and excess-profits taxes (other than the tax imposed by Subchapter E of Chapter 2 for a taxable year beginning after December 31, 1940) paid or accrued during the taxable year, to the extent not allowed as a deduction by section 23, but not including the tax imposed by this section or a corresponding section of a prior income-tax law."

(c) COMPUTATION OF EXCESS-PROFITS NET INCOME.—

(1) TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1940.—

(A) Section 711 (a) (1) (A) (relating to

adjustment for income taxes in computing excess-profits net income under income credit) is amended to read as follows:

"(A) Income Taxes.—In computing such normal-tax net income the deduction for the tax imposed by this subchapter shall not be allowed;".

(B) Section 711 (a) (2) (C) (relating to adjustment for income taxes in computing excess-profits net income under invested capital credit) is amended to read as follows:

"(C) Income Taxes.—In computing such normal-tax net income the deduction for the tax imposed by this subchapter shall not be allowed;".

(2) TAXABLE YEARS IN THE BASE PERIOD.—Section 711 (b) (1) (A) (relating to adjustment for income taxes for taxable years in the base period) is repealed.

(d) COMPUTATION OF CHARITABLE, ETC., DEDUCTIONS.—

(1) Section 711 (a) (1) of the Internal Revenue Code is amended by inserting at the end thereof the following new subparagraph:

"(G) Computation of Charitable, Etc., Deductions.—In determining any deduction the amount of which is limited to a percentage of the taxpayer's

net income (or net income from the property), such net income (or net income from the property) shall be computed without regard to the deduction on account of the tax imposed by this subchapter."

(2) Section 711 (a) (2) of the Internal Revenue Code is amended by adding at the end thereof the following new subparagraph:

"(I) Computation of Charitable, Etc., Deductions.—In determining any deduction the amount of which is limited to a percentage of the taxpayer's net income (or net income from the property), such net income (or net income from the property) shall be computed without regard to the deduction on account of the tax imposed by this subchapter."

(e) Excess-Profits Credit Carry-Over.—Section 710 (c) (1) (defining the unused excess-profits credit) is amended by adding at the end thereof a new sentence to read as follows: "For such purpose the excess-profits credit and the excess-profits net income for any taxable year beginning in 1940 shall be computed under the law applicable to taxable years beginning in 1941.".

(f) Equity Invested Capital.—Section 718 (c) (3) (relating to the computation of earnings and profits for invested capital purposes) is amended by adding after the word "subchapter" the words "or Chapter 1".

(g) ADJUSTMENT OF ABNORMAL BASE PERIOD NET INCOME.—Section 722 (c) (placing a limit on the amount of relief afforded under section 722) is amended by adding at the end thereof a new sentence to read as follows: "For the purposes of this subsection and subsection (d) the taxpayer's normal-tax net income shall be computed without deduction of the tax imposed by this subchapter.".

(h) NONDEDUCTIBILITY OF EXCESS PROFITS TAX IN COMPUTATION OF DECLARED VALUE EXCESS PROFITS TAX.—Section 602 of the Internal Revenue Code is amended by striking out "computed without the deduction of the tax imposed by section 600" and inserting in lieu thereof "computed without the deduction of the tax imposed by section 600 or the tax imposed by Subchapter E of Chapter 2.

(i) ADJUSTED DECLARED VALUE.—

(1) Section 1202 (b) (1) (C) of the Internal Revenue Code is amended to read as follows:

"(C) its net income, computed without the deduction of the tax imposed by Subchapter E of Chapter 2,".

(2) Section 1202 (b) (1) (iii) is amended to read as follows:

"(iii) the excess of the deductions allowable for income tax purposes (not including the deduction for the tax imposed by Subchapter E of Chapter 2) over its gross income."

SEC. 205. NEW CAPITAL.

Section 718 (a) of the Internal Revenue Code is amended by striking out "and" at the end of paragraph (4); by striking out the period at the end of paragraph (5) and inserting in lieu thereof a semicolon and the word "and", and by inserting at the end thereof the following:

"(6) NEW CAPITAL.—An amount equal to 25 per centum of the new capital for such day. The term 'new capital' for any day means so much of the amounts of money or property includible for such day under paragraphs (1) and (2) as was previously paid in during a taxable year beginning after December 31, 1940, and so much of the distributions in stock includible for such day under paragraph (3) as was previously made during a taxable year beginning after December 31, 1940, subject to the following limitations:

"(A) There shall not be included money or property paid in by a corporation in an exchange to which section 112 (b) (3), (4), or (5), or so much of section 112 (c), (d), or (e) as refers to section 112 (b) (3), (4), or (5) is applicable, or would have been applicable if the term 'control' had been defined in section 112 (h) to mean the ownership of stock possessing more than 50 per centum of the total combined voting power of all classes of

stock entitled to vote or more than 50 per centum of the total value of shares of all classes of stock.

"(B) There shall not be included money or property paid in to the taxpayer by a transferor corporation if immediately after such transaction the transferor and the taxpayer are members of the same controlled group. As used in this subparagraph and subparagraph (C), a controlled group means one or more chains of corporations connected through stock ownership with a common parent corporation if (i) more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock, of each of the corporations (except the common parent corporation) is owned directly by one or more of the other corporations, and (ii) the common parent corporation owns directly more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock, of at least one of the other corporations.

"(C) There shall not be included a distribution in stock described in paragraph (3) made to another corporation, if immediately after the distribution the

taxpayer and the distributee are members of the same controlled group.

"(D) Increase in Inadmissible Assets.—The new capital for any day of the taxable year, computed without the application of subparagraph (E), shall be reduced by the excess, if any, of the amount computed under section 720 (b) with respect to inadmissible assets held on such day, over the amount computed under section 720 (b) with respect to inadmissible assets held on the first day of the taxpayer's first taxable year beginning after December 31, 1940. For the purposes of this subparagraph, in determining whether obligations which are described in section 22 (b) (4) any part of the interest from which is excludible from gross income or allowable as a credit against net income are to be treated as admissible or inadmissible assets, such obligations shall be treated in the same manner as they are treated for the taxable year for which tax under this subchapter is being computed.

"(E) Maximum New Capital Allowable.—The new capital for any day of the taxable year shall not be more than the amount, if any, by which—

"(i) the sum of the equity invested capital (computed without regard to this paragraph)

and the borrowed capital (as defined in section 719 (a)) of the taxpayer as of such day, reduced by the amount of money or property paid in which is excluded by reason of the limitation of subparagraph (A) or (B) of this paragraph, exceeds

"(ii) the sum of such equity invested capital and borrowed capital as of the beginning of the first day of such taxpayer's first taxable year beginning after December 31, 1940, reduced by the amount, if any, by which the accumulated earnings and profits as of such first day of such first taxable year exceed the accumulated earnings and profits (computed without regard to distributions made in taxable years beginning after December 31, 1940) as of the beginning of the first day of the taxable year for which the tax under this subchapter is being computed."

SEC. 206. CORPORATIONS ENGAGED IN MINING STRATEGIC METALS.

Section 731 of the Internal Revenue Code (exempting from excess profits tax income derived from mining certain metals) shall not apply with respect to any taxable year beginning after December 31, 1940.

SEC. 207. TAXABLE YEARS TO WHICH AMENDMENTS APPLICABLE.

The amendments made by this title shall be applicable only with respect to taxable years beginning after December 31, 1940.

TITLE III—CAPITAL STOCK TAX AND DECLARED VALUE EXCESS-PROFITS TAX

SEC. 301. CAPITAL STOCK TAX.

(a) INCREASE IN RATE OF TAX.—Section 1200 (a) and (b) of the Internal Revenue Code (relating to rate of capital stock tax) is amended by striking out "$1" and inserting in lieu thereof "$1.25".

(b) DEFENSE TAX RATE.—Section 1200 (c) of the Internal Revenue Code is repealed.

(c) EFFECTIVE DATE.—Subsections (a) and (b) shall be effective only with respect to the year ending June 30, 1941, and succeeding years.

SEC. 302. DECLARED VALUE EXCESS-PROFITS TAX—DEFENSE TAX MADE PERMANENT.

Section 600 (b) of the Internal Revenue Code is amended to read as follows:

"(b) DEFENSE TAX.—In the case of any taxpayer, the amount of tax payable under this section for any income-tax taxable year ending after June 30, 1940, shall be 10

per centum greater than the amount of tax which would be payable if computed without regard to this subsection."

TITLE IV—ESTATE AND GIFT TAXES

SEC. 401. ESTATE TAX RATES.

(a) RATES.—Section 935 (b) of the Internal Revenue Code is amended to read as follows:

"(b) The tentative tax referred to in subsection (a) (1) of this section shall be the tentative tax shown in the following table:

"If the net estate is:	The tentative tax shall be:
Not over $5,000	3% of the net estate.
Over $5,000 but not over $10,000	$150, plus 7% of excess over $5,000.
Over $10,000 but not over $20,000	$500, plus 10% of excess over $10,000.
Over $20,000 but not over $30,000	$1,500, plus 13% of excess over $20,000.
Over $30,000 but not over $40,000	$2,800, plus 16% of excess over $30,000.
Over $40,000 but not over $50,000	$4,400, plus 20% of excess over $40,000.
Over $50,000 but not over $60,000	$6,400, plus 23% of excess over $50,000.
Over $60,000 but not over $100,000.	$8,700, plus 25% of excess over $60,000.
Over $100,000 but not over $250,000.	$18,700, plus 27% of excess over $100,000.
Over $250,000 but not over $500,000.	$59,200, plus 29% of excess over $250,000.
Over $500,000 but not over $750,000.	$131,700, plus 32% of excess over $500,000.
Over $750,000 but not over $1,000,000.	$211,700, plus 34% of excess over $750,000.
Over $1,000,000 but not over $1,250,000.	$296,700, plus 36% of excess over $1,000,000.
Over $1,250,000 but not over $1,500,000.	$386,700, plus 38% of excess over $1,250,000.
Over $1,500,000 but not over $2,000,000.	$481,700, plus 41% of excess over $1,500,000.
Over $2,000,000 but not over $2,500,000.	$686,700, plus 45% of excess over $2,000,000.
Over $2,500,000 but not over $3,000,000.	$911,700, plus 48% of excess over $2,500,000.
Over $3,000,000 but not over $3,500,000.	$1,151,700, plus 51% of excess over $3,000,000.

"If the net estate is:	The tentative tax shall be:
Over $3,500,000 but not over $4,000,000.	$1,406,700, plus 54% of excess over $3,500,000.
Over $4,000,000 but not over $5,000,000.	$1,676,700, plus 58% of excess over $4,000,000.
Over $5,000,000 but not over $6,000,000.	$2,256,700, plus 61% of excess over $5,000,000.
Over $6,000,000 but not over $7,000,000.	$2,866,700, plus 64% of excess over $6,000,000.
Over $7,000,000 but not over $8,000,000.	$3,506,700, plus 66% of excess over $7,000,000.
Over $8,000,000 but not over $10,000,000.	$4,166,700, plus 69% of excess over $8,000,000.
Over $10,000,000	$5,546,700, plus 70% of excess over $10,000,000.

(b) EFFECTIVE DATE OF AMENDMENT.—The amendment made by subsection (a) shall be applicable only to estates of decedents dying after the date of the enactment of this Act.

(c) DEFENSE TAX MADE PERMANENT.—Subchapter C of Chapter 3 of the Internal Revenue Code is amended by striking out "and before the expiration of five years after such date"; by striking out in the heading of the subchapter "**FOR FIVE YEARS**"; and by striking out in the heading of section 951 "**FOR FIVE YEARS**".

SEC. 402. GIFT TAX RATES.

(a) RATES.—The Rate Schedule of section 1001 of the Internal Revenue Code is amended to read as follows:

"If the net gifts are:	The tax shall be:
Not over $5,000	2¼% of the net gifts.
Over $5,000 but not over $10,000	$112.50, plus 5¼% of excess over $5,000.
Over $10,000 but not over $20,000	$375, plus 7½% of excess over $10,000.
Over $20,000 but not over $30,000	$1,125, plus 9¾% of excess over $20,000.
Over $30,000 but not over $40,000	$2,100, plus 12% of excess over $30,000.

"If the net gifts are:	The tax shall be:
Over $40,000 but not over $50,000	$3,300, plus 15% of excess over $40,000.
Over $50,000 but not over $60,000	$4,800, plus 17¼% of excess over $50,000.
Over $60,000 but not over $100,000	$6,525, plus 18¾% of excess over $60,000.
Over $100,000 but not over $250,000.	$14,025, plus 20¼% of excess over $100,000.
Over $250,000 but not over $500,000.	$44,400, plus 21¾% of excess over $250,000.
Over $500,000 but not over $750,000.	$98,775, plus 24% of excess over $500,000.
Over $750,000 but not over $1,000,000.	$158,775, plus 25½% of excess over $750,000.
Over $1,000,000 but not over $1,250,000.	$222,525, plus 27% of excess over $1,000,000.
Over $1,250,000 but not over $1,500,000.	$290,025, plus 28½% of excess over $1,250,000.
Over $1,500,000 but not over $2,000,000.	$361,275, plus 30¾% of excess over $1,500,000.
Over $2,000,000 but not over $2,500,000.	$515,025, plus 33¾% of excess over $2,000,000.
Over $2,500,000 but not over $3,000,000.	$683,775, plus 36% of excess over $2,500,000.
Over $3,000,000 but not over $3,500,000.	$863,775, plus 38¼% of excess over $3,000,000.
Over $3,500,000 but not over $4,000,000.	$1,055,025, plus 40½% of excess over $3,500,000.
Over $4,000,000 but not over $5,000,000.	$1,257,525, plus 43½% of excess over $4,000,000.
Over $5,000,000 but not over $6,000,000.	$1,692,525, plus 45¾% of excess over $5,000,000.
Over $6,000,000 but not over $7,000,000.	$2,150,025, plus 48% of excess over $6,000,000.
Over $7,000,000 but not over $8,000,000.	$2,630,025, plus 49½% of excess over $7,000,000.
Over $8,000,000 but not over $10,000,000.	$3,125,025, plus 51¾% of excess over $8,000,000.
Over $10,000,000	$4,160,025, plus 52½% of excess over $10,000,000."

(b) YEARS TO WHICH AMENDMENT APPLICABLE.—The amendment made by subsection (a) shall be applied in computing the tax for the calendar year 1942 and each calendar year thereafter (but not the tax for the calendar year 1941 or a previous calendar year), and such amendment shall be applied in all computations in respect of the calendar year 1941 and previous calendar years for the

purpose of computing the tax for the calendar year 1942 and any calendar year thereafter.

(c) DEFENSE TAX RATES MADE PERMANENT.—Section 1001 (d) of the Internal Revenue Code is amended by striking out "1941 to 1945, both inclusive," and inserting in lieu thereof "after 1940"; and by striking out in the heading "for 1940–1945".

TITLE V—EXCISE TAXES

Part I—1932 Excise Taxes Made Permanent

SEC. 501. 1932 EXCISE TAXES MADE PERMANENT.

Section 3452 of the Internal Revenue Code (relating to expiration of 1932 excise taxes) is repealed.

SEC. 502. PIPE LINE TAX.

Section 3460 (a) of the Internal Revenue Code (relating to termination of tax on transportation by pipe line) is amended by striking out "originating before July 1, 1945".

SEC. 503. TECHNICAL AMENDMENT.

The heading of Subtitle C of the Internal Revenue Code is amended to read as follows:

"SUBTITLE C—MANUFACTURERS' EXCISE AND IMPORT TAXES AND TEMPORARY TAXES"

SEC. 504. BOND TAX.

Section 3481 (b) (relating to expiration of tax on transfer of bonds) is repealed.

SEC. 505. CONVEYANCE TAX.

Section 3482 (relating to tax on conveyances) is amended by striking out "delivered before July 1, 1945".

Part II—Defense Tax Rates Made Permanent (No Increase in Tax and No Change in Basis of Tax)

SEC. 521. DEFENSE EXCISE TAX RATES MADE PERMANENT WHICH ARE NOT INCREASED BY THIS ACT.

(a) The following sections of the Internal Revenue Code are amended as follows:

(1) BOX SEATS.—Section 1700 (b) (1) is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

(2) SALES OUTSIDE BOX OFFICE.—Section 1700 (c) (1) is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

(3) CORPORATE SECURITIES.—Section 1801 is amended by striking out "10 cents until July 1, 1945, and 5 cents thereafter" and inserting in lieu thereof "11 cents".

(4) CAPITAL STOCK ISSUES.—Section 1802 (a) is amended by striking out "10 cents until July 1, 1945, and 5 cents thereafter" and the comma wherever following such expression and inserting in lieu thereof "11 cents"; and by striking out "2 cents until July 1,

1945, and 1 cent thereafter," and inserting in lieu thereof "3 cents".

(5) CAPITAL STOCK TRANSFERS.—Section 1802 (b) is amended by striking out "4 cents until July 1, 1945, and 2 cents thereafter," and inserting in lieu thereof "5 cents"; and by striking out "5 cents instead of 4 cents until July 1, 1945" and inserting in lieu thereof "6 cents".

(6) INSURANCE POLICIES.—Section 1804 is amended by striking out "3 cents" and inserting in lieu thereof "4 cents".

(7) PASSAGE TICKETS.—Section 1806 is amended by striking out "$1" and inserting in lieu thereof "$1.10"; by striking out "$3" and inserting in lieu thereof "$3.30"; and by striking out "$5" and inserting in lieu thereof "$5.50".

(8) CIGARETTES.—Section 2000 (c) (2) is amended by striking out "$3" and inserting in lieu thereof "$3.25" and by striking out "$7.20" and inserting in lieu thereof "$7.80".

(9) PISTOLS AND REVOLVERS.—Section 2700 (a) is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

(10) FERMENTED MALT LIQUORS.—Section 3150

(a), is amended by striking out "$5" and inserting in lieu thereof "$6".

(11) WHOLESALERS OF LIQUOR.—Section 3250 (a) (1) is amended by striking out "$100" and inserting in lieu thereof "$110".

(12) RETAILERS OF LIQUOR.—Section 3250 (b) is amended by striking out "$25" and inserting in lieu thereof "$27.50".

(13) BREWERS.—Section 3250 (c) is amended by striking out "$100" and inserting in lieu thereof "$110" and by striking out "$50" and inserting in lieu thereof "$55".

(14) WHOLESALERS OF MALT LIQUORS.—Section 3250 (d) is amended by striking out "$50" and inserting in lieu thereof "$55".

(15) RETAILERS OF MALT LIQUORS.—Section 3250 (e) (1) is amended by striking out "$20" and inserting in lieu thereof "$22", and section 3250 (e) (3) is amended by striking out "$2" and inserting in lieu thereof "$2.20".

(16) RECTIFIERS.—Section 3250 (f) (1) is amended by striking out "$200" and inserting in lieu thereof "$220"; and by striking out "$100" and inserting in lieu thereof "$110".

(17) STILLS.—Section 3250 (j) is amended by

striking out "$50" and inserting in lieu thereof "$55"; and by striking out "$20" and inserting in lieu thereof "$22".

(18) FIREARMS, ETC.—Section 3407 is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

(19) ELECTRICAL ENERGY.—Section 3411 is amended by striking out "3 per centum" and inserting in lieu thereof "3½ per centum".

(20) GASOLINE.—Section 3412 (a) is amended by striking out "1 cent" and inserting in lieu thereof "1½ cents".

(21) LUBRICATING OILS.—Section 3413 is amended by striking out "4 cents" and inserting in lieu thereof "4½ cents".

(22) TRANSPORTATION OF OIL BY PIPE LINE.—Section 3460 (a) is amended by striking out "4 per centum" and inserting in lieu thereof "4½ per centum".

(23) TRANSFER OF BONDS.—Section 3481 (a) is amended by striking out "4 cents" and inserting in lieu thereof "5 cents".

(24) CONVEYANCES.—Section 3482 is amended by striking out "50 cents" and inserting in lieu thereof "55 cents".

(b) The rates specified in subsection (a) shall be

applicable only with respect to the period after the date of the enactment of this Act, and the rates specified in section 1650 (a), section 2004, and section 3190 of the Internal Revenue Code shall not apply with respect to such period.

Part III—Increases in Rates of Existing Excise Taxes

SEC. 531. PLAYING CARDS.

Section 1807 (a) of the Internal Revenue Code is amended by striking out "10 cents" and inserting in lieu thereof "13 cents".

SEC. 532. SAFE DEPOSIT BOXES.

Section 1850 (a) of the Internal Revenue Code is amended by striking out "10 per centum" and inserting in lieu thereof "20 per centum".

SEC. 533. DISTILLED SPIRITS.

(a) RATE ON DISTILLED SPIRITS AND BRANDY.—Section 2800 (a) (1) of the Internal Revenue Code is amended by striking out "at the rate of $2.25 (and on brandy at the rate of $2)" and by inserting in lieu thereof "at the rate of $4 (and on brandy at the rate of $3.75)".

(b) RATE ON IMPORTED PERFUMES CONTAINING ALCOHOL.—Section 2800 (a) (3) of the Internal Revenue Code is amended by striking out "$2.25" and inserting in lieu thereof "$4".

(c) DRAWBACK ON DISTILLED SPIRITS.—The third paragraph of section 2887 of the Internal Revenue Code is

amended by striking out "but shall not exceed a rate of $3 (or, in the case of brandy, $2.75)" and inserting in lieu thereof "but shall not exceed a rate of $4 (or, in the case of brandy, $3.75)".

(d) FLOOR STOCKS TAX.—Section 2800 of the Internal Revenue Code is amended by inserting at the end thereof the following new subsection:

"(i) FLOOR STOCKS TAX.—

"(1) Upon all distilled spirits upon which the internal-revenue tax imposed by law has been paid, and which on the effective date of Part III of Title V of the Revenue Act of 1941 are held and intended for sale or for use in the manufacture or production of any article intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax of $1 on each proof-gallon, and a proportionate tax at a like rate on all fractional parts of such proof-gallon.

"(2) Every person required by this subsection to pay any floor stocks tax shall, on or before the first day of the third month beginning after such effective date, under such regulations as the Commissioner, with the approval of the Secretary, shall prescribe, make a return and pay such tax. Payment of the tax shown to be due may be extended to a date not later than the first day of the tenth month beginning after such

effective date, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Commissioner, with the approval of the Secretary, may prescribe.

"(3) All provisions of law, including penalties, applicable in respect of internal-revenue taxes on distilled spirits shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the floor stocks tax imposed hereunder. For the purposes of this subsection the term 'distilled spirits' shall include products produced in such manner that the person producing them is a rectifier within the meaning of section 3254 (g)."

SEC. 534. WINES.

(a) RATE ON STILL WINES.—Section 3030 (a) (1) (A) of the Internal Revenue Code is amended by striking out "5 cents" and inserting in lieu thereof "8 cents"; by striking out "15 cents" and inserting in lieu thereof "24 cents"; and by striking out "25 cents" and inserting in lieu thereof "50 cents".

(b) RATE ON SPARKLING WINES, LIQUEURS, CORDIALS, ETC.—Section 3030 (a) (2) of the Internal Revenue Code is amended by striking out "$2\frac{1}{2}$ cents" and inserting in lieu thereof "4 cents"; and by striking out "$1\frac{1}{4}$ cents" and inserting in lieu thereof "$2\frac{1}{4}$ cents".

(c) Subchapter F of Chapter 26 of the Internal Revenue Code is amended by inserting at the end thereof the following new section:

"SEC. 3192. FLOOR STOCKS TAX ON WINES.

"(a) FLOOR STOCKS TAX.—Upon all wines upon which the internal-revenue tax imposed by law has been paid, and which on the effective date of Part III of Title V of the Revenue Act of 1941 are held and intended for sale or for use in the manufacture or production of an article intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax at rates equal to the increases in rates of tax (over the defense tax rates) made applicable to such articles by section 534 of the Revenue Act of 1941.

"(b) RETURNS.—Every person required by subsection (a) to pay any floor stocks tax shall, on or before the first day of the third month beginning after such effective date, under such regulations as the Commissioner, with the approval of the Secretary, shall prescribe, make a return and pay such tax. Payment of the tax shown to be due may be extended to a date not later than the first day of the tenth month beginning after such effective date, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Commissioner, with the approval of the Secretary, may prescribe.

"(c) LAWS APPLICABLE.—All provisions of law, in-

cluding penalties, applicable in respect of the taxes imposed by section 3030 (a) shall, insofar as applicable and not inconsistent with this subsection, be applicable with respect to the floor stocks tax imposed by subsection (a)."

SEC. 535. TIRES AND TUBES.

(a) RATE ON TIRES.—Section 3400 (1) of the Internal Revenue Code is amended by striking out "2¼ cents" and inserting in lieu thereof "5 cents".

(b) RATE ON TUBES.—Section 3400 (2) of the Internal Revenue Code is amended by striking out "4 cents" and inserting in lieu thereof "9 cents".

(c) FLOOR STOCKS TAX ON TIRES AND INNER TUBES.—Section 3400 of the Internal Revenue Code is amended by inserting "(a) TAX.—" before the beginning thereof and by inserting at the end thereof the following:

"(b) FLOOR STOCKS TAX.—Upon tires and inner tubes subject to tax under subsection (a) of the type used on vehicles subject to tax under section 3403 (a) or (b) which on the effective date of Part III of Title V of the Revenue Act of 1941 are held for sale by any person there shall be levied, assessed, collected, and paid a floor stocks tax at the rate of 2½ cents per pound in the case of tires and 4½ cents per pound in the case of inner tubes. The tax shall apply to tires and inner tubes held for sale on, or in connection with, or held for use in the manufacture or production of, articles the

sale of which will be subject to tax under section 3403 (a) or (b). The tax shall not apply to tires and inner tubes held for sale by the manufacturer, producer, or importer thereof, and to tires and inner tubes the sale of which will be subject under the provisions of sections 3444 (a) (2) and 3445 to the manufacturers' tax on tires and inner tubes."

SEC. 536. EFFECTIVE DATE OF PART III.

The amendments made by this Part shall be applicable only with respect to the period beginning with the effective date of this Part, and the rates specified in section 1650 (a), section 1807 (b), section 2004, section 2800 (g), and section 3190 of the Internal Revenue Code shall not apply with respect to such period. This Part shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this Act.

Part IV—Changes in Basis of Computing Tax (Rates Increased in Certain Cases)

SEC. 541. ADMISSIONS TAX.

(a) REDUCTION OF EXEMPTION.—Section 1700 (a) (1) of the Internal Revenue Code is amended to read as follows:

"(1) RATE.—A tax of 1 cent for each 10 cents or fraction thereof of the amount paid for admission to any place, including admission by season ticket or subscription; except that in case the amount paid for admission

is less than 10 cents, no tax shall be imposed. In the case of persons (except bona fide employees, municipal officers on official business, children under twelve years of age, members of the military or naval forces of the United States when in uniform, and members of the Civilian Conservation Corps when in uniform) admitted free or at reduced rates to any place at any time when and under circumstances under which an admission charge is made to other persons, an equivalent tax shall be collected based on the price so charged to such other persons for the same or similar accommodations, to be paid by the person so admitted. Amounts paid for admission by season ticket or subscription shall be exempt only if the amount which would be charged to the holder or subscriber for a single admission is less than 10 cents."

(b) TERMINATION OF EXEMPTIONS.—Section 1701 of the Internal Revenue Code (relating to exemptions from admissions tax) shall not apply with respect to amounts paid, on or after the effective date of this Part, for admission.

(c) EXEMPTION OF NATIONAL PARK, ETC., ADMISSIONS TERMINATED.—The Interior Department Appropriation Act, 1942, is amended by striking out that part thereof under the heading "NATIONAL PARK SERVICE" which reads as follows:

"Hereafter fees incident to admission to the national

parks and monuments and other areas in the national park system, charged and collected with the approval of the Secretary of the Interior, shall be exempt from all Federal tax on admissions."

The Act entitled "An Act making appropriations for the Department of the Interior for the fiscal year ending June 30, 1936, and for other purposes", approved May 9, 1935, is amended by striking out that part thereof under the heading "NATIONAL PARK SERVICE" which reads as follows: ": *Provided*, That any admission fee charged for entrance to Carlsbad Caverns and any fee charged for guide service therein, shall be exempt from all taxes on admissions".

SEC. 542. CABARET, ROOF GARDEN, ETC., TAX.

(a) IMPOSITION.—Section 1700 (e) of the Internal Revenue Code is amended to read as follows:

"(e) TAX ON CABARETS, ROOF GARDENS, ETC.—

"(1) RATE.—A tax equivalent to 5 per centum of all amounts paid for admission, refreshment, service, and merchandise, at any roof garden, cabaret, or other similar place furnishing a public performance for profit, if any payment, or part thereof, for admission, refreshment, service, or merchandise, entitles the patron to be present during any portion of such performance. No tax shall be applicable under subsection (a) (1) on ac-

count of an amount paid with respect to which tax is imposed under this subsection.

"(2) BY WHOM PAID.—The tax imposed under paragraph (1) shall be returned and paid by the person receiving such payments."

(b) PLACE OF PAYMENT.—Section 1715 (b) of the Internal Revenue Code is amended to read as follows:

"(b) PLACE OF PAYMENT.—The taxes collected under subsection (a), and the taxes required to be paid under section 1700 (c), (d), or (e), shall be paid to the collector of the district in which the principal office or place of business is located."

(c) RETURNS.—Section 1716 (a) of the Internal Revenue Code is amended to read as follows:

"(a) REQUIREMENT.—Every person required under subsection (a) of section 1715 to collect the taxes, or required under section 1700 (c), (d), or (e) to pay the taxes, imposed by this chapter shall make returns under oath, in duplicate, in such manner and containing such information as the Commissioner, with the approval of the Secretary, may, by regulation, prescribe."

(d) Section 1700 (c) (3) and section 1700 (d) (3) of the Internal Revenue Code are repealed as of the effective date of this Part.

SEC. 543. CLUB DUES.

(a) REDUCTION OF EXEMPTION AND DEFENSE TAX RATE MADE PERMANENT.—Section 1710 (a) (1) and (2) of the Internal Revenue Code are amended to read as follows:

"(1) DUES OR MEMBERSHIP FEES.—A tax equivalent to 11 per centum of any amount paid as dues or membership fees to any social, athletic, or sporting club or organization, if the dues or fees of an active resident annual member are in excess of $10 per year.

"(2) INITIATION FEES.—A tax equivalent to 11 per centum of any amount paid as initiation fees to such a club or organization, if such fees amount to more than $10, or if the dues or membership fees, not including initiation fees, of an active resident annual member are in excess of $10 per year."

(b) DEFINITION OF DUES.—Section 1712 (a) of the Internal Revenue Code is amended to read as follows:

"(a) DUES.—The term 'dues' includes any assessment, irrespective of the purpose for which made, and any charges for social privileges or facilities, or for golf, tennis, polo, swimming, or other athletic or sporting privileges or facilities, for any period of more than six days; and".

SEC. 544. AUTOMOBILE, TRUCK, BUS, AND PARTS TAX.

(a) INCREASE OF RATE AND CLASSIFICATION OF BUSSES.—Section 3403 (a) and (b) of the Internal Revenue Code are amended to read as follows:

"(a) Automobile truck chassis, automobile truck bodies, automobile bus chassis, automobile bus bodies, truck and bus trailer and semitrailer chassis, truck and bus trailer and semitrailer bodies, tractors of the kind chiefly used for highway transportation in combination with a trailer or semitrailer (including in each of the above cases parts or accessories therefor sold on or in connection therewith or with the sale thereof), 5 per centum. A sale of an automobile truck, bus, or truck or bus trailer or semitrailer, shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body.

"(b) Other automobile chassis and bodies, chassis and bodies for trailers or semitrailers suitable for use in connection with passenger automobiles, and motorcycles (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof), except tractors, 7 per centum. A sale of an automobile, trailer, or semitrailer shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body."

(b) INCREASE IN RATE ON PARTS AND EXCLUSION OF RADIOS FROM AUTOMOBILE TAX.—The first sentence

of section 3403 (c) of the Internal Revenue Code is amended to read as follows: "Parts or accessories (other than tires and inner tubes and other than radios) for any of the articles enumerated in subsection (a) or (b), 5 per centum."

(c) CREDITS ON ACCOUNT OF TIRE AND TUBE TAX.—Section 3403 (e) of the Internal Revenue Code is amended to read as follows:

"(e) If tires or inner tubes on which tax has been imposed under this chapter are sold on or in connection with, or with the sale of, a chassis, body, or motor cycle, there shall (under regulations prescribed by the Commissioner, with the approval of the Secretary) be credited against the tax under this section an amount equal to, in the case of an article taxable under subsection (a), 5 per centum, and in the case of an article taxable under subsection (b), 7 per centum—

"(1) of the purchase price (less, in the case of tires, the part of such price attributable to the metal rim or rim base) if such tires or inner tubes were taxable under section 3400 (relating to tax on tires and inner tubes); or

"(2) if such tires or inner tubes were taxable under section 3444 (relating to use by manufacturer, producer, or importer) then of the price (less, in the case of tires, the part of such price attributable to the metal rim or rim

base) at which such or similar tires or inner tubes are sold, in the ordinary course of trade, by manufacturers, producers, or importers thereof, as determined by the Commissioner. In lieu of the rates of credit of 5 per centum and 7 per centum above provided, the rates, respectively, for the following periods, shall be as follows:

"(A) With respect to the period after June 30, 1940, and before the effective date of the increase in tax on automobiles made by the Revenue Act of 1941, $2\frac{1}{2}$ per centum and $3\frac{1}{2}$ per centum; and

"(B) With respect to the period before July 1, 1940, 2 per centum and 3 per centum."

(d) CREDITS ON TERMINATION OF TAX.—Section 3403 (f) of the Internal Revenue Code (relating to credits and refunds on termination of automobile tax) is repealed.

SEC. 545. RADIOS, PHONOGRAPHS, RECORDS, AND MUSICAL INSTRUMENTS.

Section 3404 of the Internal Revenue Code is amended to read as follows:

"SEC. 3404. TAX ON RADIO RECEIVING SETS, PHONOGRAPHS, PHONOGRAPH RECORDS, AND MUSICAL INSTRUMENTS.

"There shall be imposed upon the following articles (including in each case, except in the case of musical instruments, parts or accessories therefor sold on or in connection

with the sale thereof) sold by the manufacturer, producer, or importer a tax equivalent to 10 per centum of the price for which sold:

"(a) Radio receiving sets, automobile radio receiving sets, combination radio and phonograph sets, and phonographs.

"(b) Chassis, cabinets, tubes, reproducing units, power packs, antennae of the 'built-in' type, and phonograph mechanisms, which are suitable for use on or in connection with, or as component parts of, any of the articles enumerated in subsection (a), whether or not primarily adapted for such use.

"(c) Phonograph records.

"(d) Musical instruments."

SEC. 546. MECHANICAL REFRIGERATORS.

Section 3405 of the Internal Revenue Code is amended to read as follows:

"SEC. 3405. TAX ON REFRIGERATORS, REFRIGERATING APPARATUS, AND AIR-CONDITIONERS.

"There shall be imposed on the following articles (including in each case parts or accessories therefor sold on or in connection with the sale thereof) sold by the manufacturer, producer, or importer a tax equivalent to 10 per centum of the price for which so sold:

"(a) REFRIGERATORS, ETC.—Refrigerators, bever-

age coolers, ice cream cabinets, water coolers, food and beverage display cases, food and beverage storage cabinets, ice making machines, and milk cooler cabinets, each such article having, or being primarily designed for use with, a mechanical refrigerating unit operated by electricity, gas, kerosene, or gasoline.

"(b) REFRIGERATING APPARATUS.—Compressors, condensers, evaporators, expansion units, absorbers, and controls, for, or suitable for use as part of, or with, a refrigerating plant, refrigerating system, refrigerating equipment or unit, or any of the articles enumerated in subsection (a).

"(c) AIR-CONDITIONERS.—Self-contained air-conditioning units.

"(d) COMPONENTS.—Cabinets, compressors, condensers, fans, blowers, heating coils, cooling coils, filters, humidifiers, and controls, for, or suitable for use as part of, or with, any of the articles enumerated in subsection (c)."

SEC. 547. MATCHES.

Section 3409 of the Internal Revenue Code is amended to read as follows:

"SEC. 3409. TAX ON MATCHES.

"There shall be imposed upon matches sold by the manufacturer, producer, or importer, a tax of 2 cents per 1,000 matches, except that in the case of fancy wooden matches

and wooden matches having a stained, dyed, or colored stick or stem, packed in boxes or in bulk, the tax shall be 5½ cents per 1,000 matches."

SEC. 548. TELEPHONE, TELEGRAPH, ETC.

Section 3465 of the Internal Revenue Code is amended to read as follows:

"SEC. 3465. IMPOSITION AND RATE OF TAX.

"(a) There shall be imposed:

"(1) In the case of each telegraph, telephone, cable or radio dispatch, message, or conversation which originates within the United States for which the charge is more than 24 cents, a tax of 5 cents for each 50 cents, or fraction thereof, of the charge. Only one payment of such tax shall be required notwithstanding the lines or stations of one or more persons are used for the transmission of such dispatch, message, or conversation; and

"(2) A tax equivalent to 5 per centum of the amount paid for any of the following services:

"(A) Leased wire or talking circuit special service; or

"(B) Wire and equipment services (including teletypewriter service, burglar alarm service, news ticker services, stock quotation and information services, and all other similar services).

The tax shall apply under this paragraph whether or not the wires or services are within a local exchange area.

"(3) A tax equivalent to 5 per centum of the amount paid by subscribers for local telephone service and for any other telephone service in respect of which a tax is not payable under paragraph (1) or (2). Amounts paid for the installation of instruments, wires, poles, switchboards, apparatus, and equipment shall not be considered amounts paid for service. Service paid for by inserting coins in coin-operated telephones shall not be subject to the tax imposed by this paragraph.

"(b) This section shall not apply to the amount paid for so much of the service described in paragraph (2) of subsection (a) as is utilized in the conduct, by a common carrier or telephone or telegraph company or a radio broadcasting station or network, of its business as such."

SEC. 549. INSTALLMENT, ETC., PAYMENTS.

Section 3441 (c) of the Internal Revenue Code is amended to read as follows:

"(c) (1) In the case of (A) a lease, (B) a contract for the sale of an article wherein it is provided that the price shall be paid by installments and title to the article sold does not pass until a future date notwithstanding partial payment by installments, or (C) a conditional sale, there shall be paid upon each payment with respect to the article that portion of

the total tax which is proportionate to the portion of the total amount to be paid represented by such payment.

"(2) In the application of paragraph (1) to the articles with respect to which the rate of tax is increased by the Revenue Act of 1941 or by the Revenue Act of 1940, where the lease, contract of sale, or conditional sale, and delivery thereunder—

"(A) was made before July 1, 1940, the total tax referred to in paragraph (1) shall be the tax at the rate in force on June 30, 1940, and not at any greater rate; or

"(B) was made after June 30, 1940, and before July 1, 1941, the total tax referred to in paragraph (1) shall be the tax at the rate in force on June 30, 1941, and not at any greater rate.

"(3) Despite the provisions of paragraph (1), no tax shall be imposed with respect to any article not taxable under the law in existence on the day before the date of the enactment of the Revenue Act of 1941, if with respect to such article the lease, contract for sale, or conditional sale, and delivery thereunder, was made before July 1, 1941."

SEC. 550. EFFECTIVE DATE OF PART IV.

(a) The amendments made by this Part shall be applicable only with respect to the period beginning with the effective date of this Part, and the rates specified in section 1650 (a), section 1807 (b), section 2004, section 2800

(g), and section 3190 of the Internal Revenue Code shall not apply with respect to such period. This Part shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this Act.

(b) Despite the provisions of subsection (a), the tax imposed by section 1700 (e) of the Internal Revenue Code, as amended by section 542 of this Act (relating to cabaret, etc., tax), shall be applicable only with respect to the period beginning at 10:00 A. M. on the effective date of this Part, and the tax imposed by such subsection as in force prior to its amendment by section 542 of this Act, as modified by section 1650 (a) of the Internal Revenue Code, shall be applicable with respect to the period before 10:00 A. M. on such date.

(c) Despite the provisions of subsection (a), the amendment of section 3465 (a) (2) made by section 548 of this Act (relating to tax on leased-wire, etc., services) shall be applicable only to amounts paid on or after such effective date for services rendered, on or after the effective date of this Part, and the provisions of such subsection before its amendment by section 548 shall be applicable with respect to the period before such effective date.

(d) Despite the provisions of subsection (a), section 3465 (a) (3) of the Internal Revenue Code (relating to

tax on telephone bills), added to the Internal Revenue Code by section 548 of this Act, shall apply only to the amounts paid in pursuance of bills rendered, after the expiration of five days after the effective date of this Part, for services for which no previous bill was rendered. Such section 3465 (a) (3) shall not apply to amounts paid for services otherwise taxable under section 3465 (a) (1) which were rendered before such effective dates; nor to amounts paid for services otherwise taxable under section 3465 (a) (2) which were rendered or paid for before such effective date.

Part V—New Excise Taxes

SEC. 551. SOFT DRINKS.

Subchapter A of chapter 29 of the Internal Revenue Code is amended by inserting after section 3401 the following new section:

"SEC. 3402. TAX ON SOFT DRINKS.

"(a) DEFINITIONS.—As used in this section—

"(1) The term 'soft drinks' means carbonated beverages of the kind commonly known as soft drinks, carbonated liquids of the kind commonly known or commonly used as mixers, sparkling waters, and carbonated natural or artificial mineral waters if such mineral waters contain not more than 60 grains of minerals (dried at the temperature of boiling water) per U. S. gallon. As used

in this paragraph the term 'carbonated' includes both natural and artificial carbonation.

"(2) The term 'bottler' means any person who places soft drinks in bottles.

"(3) The term 'bottle' means any bottle, can, keg, or similar closed container.

"(b) BOTTLED SOFT DRINKS.—

"(1) IMPOSITION OF TAX.—There shall be imposed on soft drinks in bottles sold by the bottler or importer, a tax at the following rates:

"(A) If the bottle contains not more than 33 fluid ounces:

"If bottled or imported to retail at not more than 10 cents per bottle, $\frac{1}{6}$ cent per bottle.

"If bottled or imported to retail at more than 10 cents and not more than 20 cents per bottle, $\frac{1}{3}$ cent per bottle.

"If bottled or imported to retail at more than 20 cents per bottle, $\frac{1}{2}$ cent per bottle.

"(B) If the bottle contains more than 33 fluid ounces, 6 per centum of the price for which so sold.

"(2) RETAIL PRICES.—Whenever in paragraph (1) reference is made to soft drinks bottled or imported to retail at not more than a certain price per bottle, then in determining the tax to be paid regard shall be had to

the ordinary retail price of a single bottle in its principal market.

"(c) FINISHED OR FOUNTAIN SYRUPS.—

"(1) IMPOSITION OF TAX.—There shall be imposed upon finished or fountain syrups, of the kind used in manufacturing, compounding, or mixing soft drinks, sold or used by the manufacturer, producer, or importer, a tax of 6 cents per gallon.

"(2) EXEMPT SALES.—No tax shall be imposed under this subsection with respect to the sale of such syrups where it is established to the satisfaction of the Commissioner that such syrups are sold (A) to a bottler for use in the preparation of bottled soft drinks, or (B) to a person, who does not engage in the preparation of soft drinks, for consumption by him in some use other than the preparation of soft drinks.

"(3) EXEMPT USES.—No tax shall be imposed under this subsection with respect to—

"(A) The use of such syrups by the manufacturer, producer, or importer in the preparation of bottled soft drinks; or

"(B) The consumption of such syrups by the manufacturer, producer, or importer, who is not engaged in the preparation of soft drinks, in some use other than the preparation of soft drinks.

"(d) CARBONIC ACID GAS.—

"(1) IMPOSITION OF TAX.—There shall be imposed upon carbonic acid gas in gaseous, liquid, or solid form, suitable for use in the preparation of soft drinks, sold by the manufacturer, producer, or importer, or by a dealer in such gas, to any person who sells soft drinks otherwise than in bottles, a tax of 4 cents per pound.

"(2) EXEMPT SALES.—No tax shall be imposed under this subsection with respect to the sale of carbonic acid gas where it is established to the satisfaction of the Commissioner that—

"(A) Such gas is sold for use by the vendee in the preparation of bottled soft drinks, or for consumption by him in some use other than the preparation of soft drinks; or

"(B) Such gas is sold for resale by the vendee in the course of his regular business as a dealer in carbonic acid gas, if such gas is in due course so resold.

"(e) INAPPLICABILITY OF PROVISIONS.—The provisions of section 3442 (1) and (2), section 3443 (a) (1), and section 3444, shall not be applicable to the taxes imposed by this section.

"(f) EFFECTIVE DATE.—This section shall take effect on the effective date of Part V of Title V of the Revenue Act of 1941."

SEC. 552. NEW MANUFACTURERS' EXCISE TAXES.

Subchapter A of Chapter 29 of the Internal Revenue Code is amended by inserting after section 3405 the following new section:

"SEC. 3406. EXCISE TAXES IMPOSED BY THE REVENUE ACT OF 1941.

"(a) IMPOSITION.—There shall be imposed on the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to the rate, on the price for which sold, set forth in the following paragraphs (including in each case parts or accessories of such articles sold on or in connection therewith, or with the sale thereof):

"(1) SPORTING GOODS.—Badminton nets; badminton rackets (measuring 22 inches over-all or more in length); badminton racket frames (measuring 22 inches over-all or more in length); badminton racket string; badminton shuttlecocks, badminton standards; baseballs; baseball bats (measuring 26 inches or more in length); baseball body protectors and shin guards; baseball gloves and mitts; baseball masks; basketballs; billiard and pool tables (measuring 45 inches over-all or more in length); billiard and pool balls and cues for such tables; bowling balls and pins; boxing gloves, masks, head guards, and ear guards; clay pigeons; cricket balls; cricket bats; croquet balls and mallets; curling stones;

deck tennis rings, nets, and posts; fencing equipment; fishing rods, creels, reels, and artificial lures, baits, and flies; footballs; football harness; football helmets; golf bags (measuring 26 inches or more in length); golf balls; golf clubs (measuring 30 inches or more in length); gymnasium equipment and apparatus; hockey balls; hockey pucks; hockey sticks (measuring 30 inches or more in length); indoor baseballs; indoor baseball bats (measuring 26 inches or more in length); indoor baseball gloves and mitts; lacrosse balls; lacrosse sticks; mass balls; polo balls; polo mallets; push balls; skates; skis; ski poles; snow shoes; snow toboggans and sleds; soccer balls; softball balls; softball bats (measuring 26 inches or more in length); softball gloves and mitts; squash balls; squash rackets (measuring 22 inches over-all or more in length); squash racket frames (measuring 22 inches over-all or more in length); squash racket string; tennis balls; table tennis tables, balls, nets, and paddles; tennis nets; tennis rackets (measuring 22 inches over-all or more in length); tennis racket frames (measuring 22 inches over-all or more in length); tennis racket string; track hurdles; traps for throwing clay pigeons; vaulting poles, cross bars, and standards; volley balls, nets, and standards; water polo balls and goals; and wrestling head harness; 10 per centum.

"(2) LUGGAGE.—Trunks, valises, traveling bags, suitcases, hat boxes for use by travelers, fitted toilet cases (not including contents), and other traveler's luggage, and leather and imitation leather brief cases, 10 per centum.

"(3) ELECTRIC APPLIANCES.—Electric direct motor-driven fans and air circulators; electric storage water heaters; electric flat irons; electric air heaters (not including furnaces); electric immersion heaters; electric heating pads and blankets; electric appliances of the type used for cooking, warming, or keeping warm food or beverages for consumption on the premises; electric mixers, whippers, and juicers; and household type electric vacuum cleaners; 10 per centum.

"(4) PHOTOGRAPHIC APPARATUS.—Cameras and lenses; unexposed photographic films (including motion picture films but not including X-Ray film), photographic plates and sensitized paper; photographic apparatus and equipment; and any apparatus or equipment designed especially for use in the taking of photographs or motion pictures or in the developing, printing, or enlarging of photographs or motion picture films; 10 per centum.

"(5) ELECTRIC SIGNS.—Neon-tube signs, electric signs, and electric advertising devices, 10 per centum.

"(6) BUSINESS AND STORE MACHINES.—Adding machines, addressing machines, autographic registers, bank proof machines, billing machines, bookkeeping machines, calculating machines, card punching machines, cash registers, change making machines, check writing machines, check signing machines, check cancelling machines, check perforating machines, check cutting machines, check dating machines, other check protector machine devices, comptometers, computing machines, coin counters, dictographs, dictaphones, dictaphone record shaving machines, dictating machines, duplicating machines, embossing machines, envelope opening machines, erasing machines, folding machines, fanfold machines, fare registers, fare boxes, listing machines, line-a-time and similar machines, mailing machines, multigraph machines, multigraph typesetting machines, multigraph type justifying machines, numbering machines, portable paper fastening machines, pay roll machines, pencil sharpeners, postal permit mailing machines, punch card machines, sorting machines, stencil cutting machines, shorthand writing machines, sealing machines, tabulating machines, ticket counting machines, ticket issuing machines, typewriters, transcribing machines, time recording devices, and combinations of any of the foregoing, 10 per centum.

"(7) RUBBER ARTICLES.—Articles of which rubber is the component material of chief weight, 10 per centum. The tax imposed under this paragraph shall not be applicable to footwear, articles designed especially for hospital or surgical use, or articles taxable under any other provision of this Chapter.

"(8) WASHING MACHINES.—Washing machines of the kind used in commercial laundries, 10 per centum. No tax shall be imposed under this paragraph on washing machines of the household type.

"(9) OPTICAL EQUIPMENT.—Refractometers; spectrometers; spectroscopes; colorimeters; polariscopes; optical measuring instruments; telescopic sights; projection lenses and prisms; optical machinery; microscopes; telescopes; photo-micro and micro-projection apparatus; fire control optical instruments; and searchlight mirrors and reflectors; 10 per centum.

"(b) EXEMPTION IF ARTICLE TAXABLE AS JEWELRY.—No tax shall be imposed under this section on any article taxable under section 2400 (relating to jewelry tax).

"(c) EFFECTIVE DATE.—This section shall take effect on the effective date of Part V of Title V of the Revenue Act of 1941."

SEC. 553. NEW RETAILERS' EXCISE TAXES.

(a) IMPOSITION OF TAX.—The Internal Revenue Code

is amended by adding after Chapter 18 the following new chapter:

"CHAPTER 19—RETAILERS' EXCISE TAXES

"SEC. 2400. TAX ON JEWELRY, ETC.

"There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 per centum of the price for which so sold: All articles commonly or commercially known as jewelry, whether real or imitation; pearls, precious and semi-precious stones, and imitations thereof; articles made of, or ornamented, mounted or fitted with, precious metals or imitations thereof; watches and clocks and cases and movements therefor; gold, gold-plated, silver, silver-plated or sterling flatware or hollow ware; opera glasses; lorgnettes; marine glasses; field glasses; and binoculars. The tax imposed by this section shall not apply to any article used for religious purposes, to surgical instruments, or to frames or mountings for spectacles or eyeglasses.

"SEC. 2401. TAX ON FURS.

"There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 per centum of the price for which so sold: Articles made of fur on the hide or pelt, and articles of which such fur is the component material of chief value.

"SEC. 2402. TAX ON TOILET PREPARATIONS.

"(a) TAX.—There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 per centum

of the price for which so sold: Perfumes, essences, extracts, toilet waters, cosmetics, petroleum jellies, hair oils, pomades, hair dressings, hair restoratives, hair dyes, aromatic cachous, toilet powders, and any similar substance, article, or preparation, by whatsoever name known or distinguished; any of the above which are used or applied or intended to be used or applied for toilet purposes.

"(b) BEAUTY PARLORS, ETC.—For the purposes of subsection (a), if any person operating a barber shop, beauty parlor, or similar establishment, uses any article described in subsection (a) in the treatment of any customer or patron, the total amount so used during any month shall be considered as sold at retail by such person during such month, and the fair retail price of such amount, as determined by the Commissioner, shall be considered to be the price at which so sold.

"SEC. 2403. RETURN AND PAYMENT OF RETAILERS' EXCISE TAXES.

"(a) Every person who sells at retail any article taxable under this chapter shall make monthly returns under oath in duplicate and pay the taxes imposed by this chapter to the collector for the district in which is located his principal place of business or, if he has no principal place of business in the United States, then to the collector at Baltimore, Maryland. Such returns shall contain such information and be

made at such times and in such manner as the Commissioner, with the approval of the Secretary, may by regulations prescribe.

"(b) The tax shall, without assessment by the Commissioner or notice from the collector, be due and payable to the collector at the time so fixed for filing the return. If the tax is not paid when due, there shall be added as part of the tax interest at the rate of 6 per centum per annum from the time when the tax became due until paid.

"SEC. 2404. DEFINITION OF SALE.

"For the purposes of this chapter, the lease of an article shall be considered the sale of such article.

"SEC. 2405. LEASES, CONDITIONAL SALES, ETC.

"In the case of (a) a lease, (b) a contract for the sale of an article wherein it is provided that the price shall be paid by installments and title to the article sold does not pass until a future date notwithstanding partial payment by installments, or (c) a conditional sale, there shall be paid upon each payment with respect to the article that portion of the total tax which is proportionate to the portion of the total amount to be paid represented by such payment. No tax shall be imposed under this chapter on the sale of any article taxable under section 2400 or section 2401 if with respect to such article the lease, contract for sale, or conditional sale was made, delivery thereunder was made, and a part of the consideration was paid, before July 1, 1941.

"SEC. 2406. TAX-FREE SALES.

"Under regulations prescribed by the Commissioner with the approval of the Secretary, no tax under this chapter shall be imposed with respect to the sale of any article—

"(a) for the exclusive use of the United States, any State, Territory of the United States, or any political subdivision of the foregoing, or the District of Columbia;

"(b) for export, or for shipment to a possession of the United States, and in due course so exported or shipped.

"SEC. 2407. CREDITS AND REFUNDS.

"(a) A credit against tax under this chapter, or a refund, may be allowed with respect to an article, when the price on which the tax was based is readjusted by reason of return or repossession of the article, or by a bona fide discount, rebate, or allowance, in the amount of that part of the tax proportionate to the part of the price which is refunded or credited.

"(b) No overpayment of tax under this chapter shall be credited or refunded, in pursuance of a court decision or otherwise, unless the person who paid the tax establishes, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, (1) that he has not included the tax in the price of the article with respect to which it was imposed, or collected the amount of tax from the pur-

chaser, or (2) that he has repaid the amount of the tax to the purchaser of the article, or unless he files with the Commissioner written consent of such purchaser to the allowance of the credit or refund.

"SEC. 2408. APPLICABILITY OF ADMINISTRATIVE PROVISIONS.

"All provisions of law (including penalties) applicable in respect of the taxes imposed by section 2700 shall, insofar as applicable and not inconsistent with this chapter, be applicable in respect of the taxes imposed by this chapter.

"SEC. 2409. RULES AND REGULATIONS.

"The Commissioner, with the approval of the Secretary, shall prescribe and publish all needful rules and regulations for the enforcement of this chapter.

"SEC. 2410. EFFECTIVE DATE.

"This chapter shall be effective on and after the effective date of Part V of Title V of the Revenue Act of 1941."

(b) TERMINATION OF MANUFACTURERS' TAX ON TOILET PREPARATIONS.—The tax imposed by section 3401 of the Internal Revenue Code shall not apply to articles sold on or after the effective date of this Part.

SEC. 554. TRANSPORTATION OF PERSONS, ETC.

(a) The heading of Subchapter C is amended to read as follows: **"SUBCHAPTER D—ADMINISTRATIVE PROVISIONS".**

(b) Chapter 30 of the Internal Revenue Code is amended by inserting after section 3468 the following new subchapter:

"SUBCHAPTER C—TRANSPORTATION OF PERSONS

"SEC. 3469. TAX ON TRANSPORTATION OF PERSONS, ETC.

"(a) TRANSPORTATION.—There shall be imposed upon the amount paid within the United States, on or after the effective date of Part V of Title V of the Revenue Act of 1941, for the transportation, on or after such effective date, of persons by rail, motor vehicle, water, or air, within or without the United States, a tax equal to 5 per centum of the amount so paid. Such tax shall apply to transportation by motor vehicles having a passenger seating capacity of less than 10 adult passengers, including the driver, only when such vehicle is operated on an established line.

"(b) EXEMPTION OF CERTAIN TRIPS.—The tax imposed by subsection (a) shall not apply to amounts paid for transportation which do not exceed 35 cents, to amounts paid for commutation or season tickets for single trips of less than thirty miles, or to amounts paid for commutation tickets for one month or less.

"(c) SEATS, BERTHS, ETC.—There shall be imposed upon the amount paid within the United States for seating or sleeping accommodations in connection with transportation with respect to which a tax is imposed by subsection

(a) a tax equivalent to 5 per centum of the amount so paid.

"(d) RETURNS AND PAYMENT.—The taxes imposed by this section shall be paid by the person making the payment subject to the tax. Each person receiving any payment specified in subsection (a) or (c) shall collect the amount of the tax imposed from the person making such payment, and shall, on or before the last day of each month, make a return, under oath, for the preceding month, and pay the taxes so collected to the collector in the district in which his principal place of business is located, or if he has no principal place of business in the United States, to the collector at Baltimore, Maryland. Such returns shall contain such information and be made in such manner as the Commissioner with the approval of the Secretary may by regulations prescribe.

"(e) EXTENSIONS OF TIME.—The Commissioner may extend the time for making returns and paying the taxes collected, under such rules and regulations as he shall prescribe with the approval of the Secretary, but no such extension shall be for more than ninety days.

"(f) GOVERNMENTAL EXEMPTION.—The tax imposed by this section shall not apply to the payment for transportation or facilities furnished to the United States, or to any State or Territory, or political subdivision thereof, or the District of Columbia."

(c) STAMP TAX ON PASSAGE TICKETS NOT TO APPLY.—No tax shall be imposed under Chapter 11 of the Internal Revenue Code on a ticket sold or issued for passage the amount paid for which is taxable under section 3469 of the Internal Revenue Code.

(d) TECHNICAL AMENDMENTS.—

(1) Section 55 (a) (2) of the Internal Revenue Code is amended by striking out "subchapters A and B of".

(2) Section 3471 (a) and (c) are amended by inserting after "subchapter B" wherever occurring therein "or subchapter C".

(3) Section 3472 of the Internal Revenue Code is amended by striking out "of subchapters A and B".

SEC. 555. COIN-OPERATED AMUSEMENT AND GAMING DEVICES.

Subchapter A of Chapter 27 of the Internal Revenue Code is amended by adding at the end thereof the following new Part:

"Part IX—Coin-Operated Amusement and Gaming Devices

"SEC. 3267. TAX ON COIN-OPERATED AMUSEMENT AND GAMING DEVICES.

"(a) RATE.—Every person who maintains for use or permits the use of, on any place or premises occupied by him, a coin-operated amusement or gaming device shall pay a special

tax of $25 per year in respect of such device, and shall pay an additional special tax of $25 per year for each additional such device so maintained or the use of which is so permitted. If one such device is replaced by another, such other device shall not be considered an additional device.

"(b) DEFINITION.—As used in this Part, the term 'coin-operated amusement and gaming devices' means (1) so-called 'pin-ball' and other similar amusement machines, operated by means of the insertion of a coin, token, or similar object, and (2) so-called 'slot' machines which operate by means of insertion of a coin, token, or similar object and which, by application of the element of chance, may deliver, or entitle the person playing or operating the machine to receive, cash, premiums, merchandise, or tokens. The term does not include bona fide vending machines in which are not incorporated gaming or amusement features.

"(c) APPLICABILITY OF ADMINISTRATIVE PROVISIONS.—An operator of a place or premises who maintains for use or permits the use of any coin-operated device shall be considered, for the purposes of Subchapter B, to be engaged in a trade or business in respect of each such device.

"(d) EFFECTIVE DATE OF TAX.—With respect to the year ending June 30, 1942, no tax shall be payable under

this Part for any period prior to the effective date of Part V of Title V of the Revenue Act of 1941."

SEC. 556. BOWLING ALLEYS, ETC.

Subchapter A of Chapter 27 of the Internal Revenue Code is amended by adding at the end thereof the following new Part:

"Part X—Bowling Alleys, and Billiard and Pool Tables

"SEC. 3268. TAX ON BOWLING ALLEYS, AND BILLIARD AND POOL TABLES.

"(a) RATE.—Every person who operates a bowling alley, billiard room, or pool room shall pay a special tax of $15 per year for each bowling alley, billiard table, or pool table. Every building or place where bowls are thrown or where games of billiards or pool are played, except in private homes, shall be regarded as a bowling alley, billiard room, or pool room, respectively.

"(b) EFFECTIVE DATE OF TAX.—With respect to the year ending June 30, 1942, no tax shall be payable under this Part for any period prior to the effective date of Part V of Title V of the Revenue Act of 1941."

SEC. 557. OUTDOOR ADVERTISING.

Subchapter A of Chapter 27 of the Internal Revenue Code is amended by adding at the end thereof the following new Part:

"Part XI—Outdoor Advertising

"SEC. 3269. TAX ON OUTDOOR ADVERTISING.

"(a) TAX.—Every person who engages in business as a lessor of billboards for outdoor advertising shall pay with respect to each billboard maintained or controlled by him for use in such business a special tax at the following rates:

"Tax Classification "For each billboard having an advertising space area of:	Per Annum
"(1) Not more than 300 square feet	$5.00
"(2) More than 300 and not more than 600 square feet	8.00
"(3) More than 600 square feet	11.00

"(b) ADDITIONAL BILLBOARDS.—Where a person has paid the special tax with respect to each of a number of billboards of the same tax classification and thereafter discontinues the maintenance or control of one or more, and also assumes the maintenance or control of additional billboards of the same tax classification, he shall pay special tax only with respect to so many of such additional billboards as exceed the number with respect to which he has already paid special tax.

"(c) DEFINITIONS.—As used in this section—

"(1) The term 'billboard' means any outdoor structure or device primarily designed for the display of advertising matter, and includes so-called 'sign space' on the exterior of a building the use of which is controlled by

a person engaged in business as lessor of billboards for outdoor advertising.

"(2) The term 'lessor' means any person who maintains or controls the use of billboards and, for compensation, displays advertising matter thereon for another person or permits the display of advertising matter thereon by another person.

"(d) PENALTIES.—Any person liable for the special tax under this section with respect to any billboard maintained or controlled by him who fails to pay such tax, besides being liable for the payment of the tax, shall be fined not more than $50 for each offense.

"(e) OTHER LAWS APPLICABLE.—All administrative and penalty provisions of subchapters A, B, and C of Chapter 11, insofar as applicable, shall apply to the special tax imposed by subsection (a) and to the persons upon whom imposed.

"(f) EFFECTIVE DATE OF TAX.—With respect to the year ending June 30, 1942, no tax shall be payable under this Part for any period prior to the effective date of Part V of Title V of the Revenue Act of 1941."

SEC. 558. USE OF MOTOR VEHICLES AND BOATS.

The Internal Revenue Code is amended by inserting after Chapter 33 the following new chapter:

"CHAPTER 33A—USE OF MOTOR VEHICLES AND BOATS

"SEC. 3540. TAX ON USE OF MOTOR VEHICLES AND BOATS.

"(a) IMPOSITION OF TAX.—There shall be imposed upon the use of motor vehicles and boats a tax, with respect to each year in which such use occurs, at the following rates:

"(1) Motor vehicles—$5.

"(2) BOATS.—

"Over-all length 16 feet or over but not over 28 feet, $5.

"Over-all length over 28 feet but not over 50 feet, $10.

"Over-all length over 50 feet but not over 100 feet, $40.

"Over-all length over 100 feet but not over 150 feet, $100.

"Over-all length over 150 feet but not over 200 feet, $150.

"Over-all length over 200 feet, $200.

Such tax, in the case of a motor vehicle, shall be paid by the person in whose name the motor vehicle is, or is required to

be, registered under the law of the State, Territory, or the District of Columbia in which such motor vehicle is, or is required to be, registered. Such tax, in the case of a boat, shall be paid by the owner of the boat. The tax imposed by this section shall not apply to any use before February 1, 1942, and use before such date shall not be considered to be use within the meaning of this section.

"(b) DEFINITIONS.—For the purposes of this section—

"(1) The term 'year' means the year beginning July 1.

"(2) The term 'motor vehicle' means all motor vehicles of the kind chiefly used for highway transportation.

"(3) The term 'boat' means all boats propelled by machinery, sail, or both, measuring 16 feet or more in over-all length, owned by a citizen or resident of the United States. Such term does not include boats used exclusively for trade, or commercial fishing, or boats used without profit by any benevolent, charitable, or religious organization exclusively for furnishing aid, comfort, or relief to seamen.

"(4) The term 'use' in the case of the use of a motor vehicle means use on the public highways.

"(c) PRORATION OF TAX.—If in any year the first use of the motor vehicle or boat is after July 31 the tax shall be reckoned proportionately from the first day of the month in

which such use occurs to and including the 30th day of June following.

"(d) ONE PAYMENT PER YEAR.—If the tax imposed by this section is paid with respect to any motor vehicle or boat for any year no further tax shall be imposed for such year with respect to such motor vehicle or boat.

"(e) EVIDENCE OF TAX PAYMENT.—The payment of the tax imposed by this section shall be evidenced by such suitable stamp, sticker, or tag of such form, which shall be affixed to the motor vehicle or boat in such manner, as the Commissioner, with the approval of the Secretary, may by regulations prescribe.

"(f) MANNER OF COLLECTION.—The place, time, and manner of making payment of the tax, and of furnishing such stamp, sticker, or tag shall be such as may be provided in regulations prescribed by the Commissioner with the approval of the Secretary.

"(g) COOPERATION OF POST OFFICE DEPARTMENT.—The Commissioner shall furnish to the Postmaster General without prepayment a suitable quantity of stamps, stickers, or tags to be distributed to and kept on sale by postmasters in the United States. The Postmaster General may require each such postmaster to give additional or increased bond as postmaster for the value of the stamps, stickers, or tags furnished to him, and each such postmaster

shall deposit the receipts from the sale of such stamps, stickers, or tags to the credit of and render accounts to the Postmaster General at such times and in such form as he may by regulations prescribe. The Postmaster General shall at least once monthly transfer all collections from this source to the Treasury as internal-revenue collections. The Postmaster General is authorized to cooperate to the fullest extent possible with the Commissioner in the sale of such stamps, stickers, or tags and in forwarding to the Commissioner or to the collector of internal revenue such blanks or forms as the Commissioner may determine necessary to the collection of the tax.

"(h) SALE OF STAMPS BY PRIVATE PERSONS.—If the Commissioner provides for the sale of stamps, stickers, or tags by persons not officers or employees of the United States he may require bond, with sufficient sureties, in a sum to be fixed by the Commissioner, conditioned for the faithful return, whenever required, of all quantities or amounts undisposed of, and for the payment for, all quantities or amounts sold or not remaining on hand. The Commissioner, with the approval of the Secretary, may from time to time make such regulations as he may find necessary to insure the safekeeping or prevention of illegal use of all such stamps, stickers, or tags.

"(i) PENALTIES FOR UNLAWFUL USE.—Any person

liable for the tax under this section who uses or permits the use of the motor vehicle or boat before tax has been paid shall be guilty of a misdemeanor and upon conviction thereof shall be fined not more than $25 or imprisoned for not more than 30 days, or both. Any person who uses or operates a motor vehicle or boat at a time when the stamp, sticker, or tag does not appear on the motor vehicle or boat in the manner provided in the regulations prescribed under subsection (e) or (f) shall be guilty of a misdemeanor and upon conviction thereof shall be fined not more than $25.

"(j) EXEMPT USES.—The tax imposed by this section shall not apply to the use of a motor vehicle or boat by the United States, a State, Territory, the District of Columbia, or a political subdivision of any of the foregoing."

SEC. 559. EFFECTIVE DATE OF PART V.

This Part shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this Act.

TITLE VI—RADIO BROADCASTING AND NETWORK TAX

SEC. 601. TAX ON RADIO BROADCASTING STATIONS AND NETWORKS.

Subtitle B of the Internal Revenue Code is amended by inserting after chapter 6 the following new chapter:

"CHAPTER 6A

"SEC. 1220. TAX ON RADIO BROADCASTING STATIONS AND NETWORKS.

"(a) RATE.—For each calendar year beginning after December 31, 1941, there shall be imposed upon every person with respect to operating a radio broadcasting station or engaging in network broadcasting for any part of such year, an excise tax computed as follows:

"(1) If the net time sales exceed $100,000 and do not exceed $500,000, an amount equal to 5 per centum of the net time sales, or an amount equal to the net time sales in excess of $100,000, whichever is the lesser.

"(2) If the net time sales exceed $500,000 and do not exceed $1,000,000, an amount equal to 10 per centum of the net time sales, or an amount equal to $25,000 plus the amount of the net time sales in excess of $500,000, whichever is the lesser.

"(3) If the net time sales exceed $1,000,000, an amount equal to 15 per centum of the net time sales, or an amount equal to $100,000 plus the amount of the net time sales in excess of $1,000,000, whichever is the lesser.

"(b) DEFINITIONS.—For the purposes of this section—

"(1) 'Network broadcasting' means the making of

arrangements with persons operating radio broadcasting stations for the simultaneous broadcast of an identical program by two or more connected stations and the distribution of programs by wire or radio to such persons.

"(2) 'Time sales' means the gross amount received or accrued from the sale of broadcast time. Where the sale is for a consideration other than money the gross amount considered to be received or accrued shall be the seller's published card rate for broadcast time. Where the sale is for a consideration, less a commission to an advertising agency (whether such sale is made to such agency or its principal) the amount of such commission (not in excess of 15 per centum of such consideration) shall be excluded in determining the gross amount received or accrued with respect to such sale.

"(3) 'Net time sales' means time sales minus the amounts paid or incurred for broadcast time to other persons operating radio stations or engaged in network broadcasting.

"SEC. 1221. RETURNS.

"(a) REQUIREMENT.—Every person liable for tax under section 1220 shall make a return under oath. Such return shall contain such information and be made in such manner

as the Commissioner with the approval of the Secretary may by regulations prescribe.

"(b) TIME FOR FILING.—

"(1) GENERAL RULE.—Such return shall be made within two months after the close of the year with respect to which such tax is imposed.

"(2) EXTENSION OF TIME.—The Commissioner may extend the time for making the returns, under such rules and regulations as he may prescribe with the approval of the Secretary, but no such extension shall be for more than sixty days.

"(c) PLACE FOR FILING.—The return shall be made to the collector for the district in which is located the principal place of business of the taxpayer, or, if it has no principal place of business in the United States, then to the collector at Baltimore, Maryland.

"SEC. 1222. OTHER LAWS APPLICABLE.

"All provisions of law (including penalties) applicable in respect of the taxes imposed by chapter 6 shall, insofar as not inconsistent with this chapter, be applicable in respect of the tax imposed by this chapter."

Union Calendar No. 350

77TH CONGRESS
1ST SESSION

H. R. 5417

[Report No. 1040]

A BILL

To provide revenue, and for other purposes.

By Mr. DOUGHTON

JULY 24, 1941
Referred to the Committee on Ways and Means

JULY 24, 1941
Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

77TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 1065

CONSIDERATION OF H. R. 5417

JULY 28, 1941.—Referred to the House Calendar and ordered to be printed

LIBRARY BUREAU OF AGRICULTURAL ECONOMICS U.S. DEPARTMENT OF AGRICULTURE

Mr. SABATH, from the Committee on Rules, submitted the following

REPORT

[To accompany H. Res. 279]

The Committee on Rules, having had under consideration House Resolution 279, reports the same to the House with the recommendation that the resolution do pass.

○

House Calendar No. 145

77TH CONGRESS
1ST SESSION

H. RES. 279

[Report No. 1065]

LIBRARY
BUREAU OF
AGRICULTURAL ECONOMICS

IN THE HOUSE OF REPRESENTATIVES

JULY 28, 1941

Mr. SABATH, from the Committee on Rules, reported the following resolution; which was referred to the House Calendar and ordered to be printed

RESOLUTION

Resolved, That upon the adoption of this resolution it shall be in order to move that the House resolve itself into the Committee of the Whole House on the state of the Union for the consideration of H. R. 5417, a bill to provide revenue, and for other purposes, and all points of order against said bill are hereby waived. That after general debate, which shall be confined to the bill and shall continue not to exceed three days, to be equally divided and controlled by the chairman and ranking minority member of the Committee on Ways and Means, the bill shall be considered as having been read for amendment. No amendment shall be in order to said bill except amendments offered by direction of the

Committee on Ways and Means, and said amendments shall be in order, any rule of the House to the contrary notwithstanding. Amendments offered by direction of the Committee on Ways and Means may be offered to any section of the bill at the conclusion of the general debate, but said amendments shall not be subject to amendment. At the conclusion of the consideration of the bill for amendment, the Committee shall rise and report the bill to the House with such amendments as may have been adopted, and the previous question shall be considered as ordered on the bill and amendments thereto to final passage without intervening motion except one motion to recommit.

House Calendar No. 145

77TH CONGRESS
1ST SESSION

H. RES. 279

[Report No. 1065]

RESOLUTION

Providing for the consideration of H. R. 5417, a bill to provide revenue, and for other purposes.

By Mr. SABATH

JULY 28, 1941

Referred to the House Calendar and ordered to be printed

77TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 1076

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CONSIDERATION OF H. R. 5417

JULY 30, 1941.—Referred to the House Calendar and ordered to be printed

Mr. SABATH, from the Committee on Rules, submitted the following

REPORT

[To accompany H. Res. 280]

The Committee on Rules, having had under consideration House Resolution 280, report the same to the House with the recommendation that the resolution do pass.

○

House Calendar No. 152

77TH CONGRESS
1ST SESSION

H. RES. 280

[Report No. 1076]



IN THE HOUSE OF REPRESENTATIVES

JULY 30, 1941

MR. SABATH, from the Committee on Rules, reported the following resolution; which was referred to the House Calendar and ordered to be printed

RESOLUTION

Resolved, That upon the adoption of this resolution it shall be in order to move that the House resolve itself into the Committee of the Whole House on the state of the Union for the consideration of H. R. 5417, a bill to provide revenue, and for other purposes, and all points of order against said bill are hereby waived. That after general debate, which shall be confined to the bill and shall continue not to exceed three days, to be equally divided and controlled by the chairman and ranking minority member of the Committee on Ways and Means, the bill shall be considered as having been read for amendment. No amendment shall be in order to said bill except one amendment proposing to strike out sec-

tion 111 and except amendments offered by direction of the Committee on Ways and Means, and said amendments shall be in order, any rule of the House to the contrary notwithstanding, but such amendments shall not be subject to amendment. Amendments authorized by this resolution may be offered to any section of the bill at the conclusion of the general debate. At the conclusion of the consideration of the bill for amendment, the Committee shall rise and report the bill to the House with such amendments as may have been adopted, and the previous question shall be considered as ordered on the bill and amendments thereto to final passage without intervening motion except one motion to recommit.

House Calendar No. 152

77TH CONGRESS
1ST SESSION

H. RES. 280

[Report No. 1076]

RESOLUTION

Providing for the consideration of H. R. 5417, a bill to provide revenue, and for other purposes.

By Mr. SABATH

JULY 30, 1941

Referred to the House Calendar and ordered to be printed

seen that. As a consequence there is some semblance of the American form of government left, and that is why I say that this great House of Representatives is as yet the bulwark of American democracy and republican principles.

Now, what about an amendment to define the head of a family? Are we going to shut our mouths to that? I do not like the definition that the Ways and Means Committee has given to the head of a family. I think that if a brother or sister has taken under his or her wing that little brood of younger brothers and sisters to bring up and if she or he is the sole support of them, they deserve the same credit on their income tax as the father and mother or the surviving parent. We should have the right to say in this House, which we will not have if this rule is adopted, whether that definition shall be altered.

How about expenses incident to the administration of fiduciary trusts? Our Ways and Means Committee gave no consideration to that. I would like this great deliberative body to determine if it is not equitable to allow the administrators of trust estates and fiduciary trusts to deduct the expenses of administration from their income tax as an operating expense.

How about bonuses paid by thousands of concerns in the form of defense bonds? Can they be deducted as an operating expense? Not under existing law. But this House is charged with the duty of giving encouragement to the sale of defense bonds and the payment of these bonuses in the form of defense bonds, and we at this time should be given the opportunity to discuss this very important question.

[Here the gavel fell.]

Mr. SABATH. Mr. Speaker, the need for this rule is apparent. If it is not adopted, we would be here for months and still would not finish. I yield the balance of the time on this side to the gentleman from Massachusetts [Mr. McCORMACK].

Mr. McCORMACK. Mr. Speaker, we have listened to the utterances of some of our friends on the other side. The gentleman from Michigan [Mr. WOLCOTT] talks about the last semblance of representative government, and so forth. When the Republicans were in control they voted for a closed rule on a tax bill. They voted for a closed rule on the Tariff Act. They did that then because the responsibility rested upon them as the majority party to enact into law legislation that was deemed necessary and which carried out the policies of the leadership of that party. If the gentleman from Michigan [Mr. WOLCOTT] was here in those days, and I think he was, the chances are that he voted for those closed rules.

In any event, the gentleman from New York [Mr. CROWTHER] and the gentleman from Minnesota [Mr. KNUTSON] are sufficiently intellectually honest to remember that 10 years ago the Republican Party in this body proposed and voted for closed rules. The opposition of most of the Republicans today is just for political purposes. They may try to fool some of the public, but I hope they do not think they are fooling themselves. Certainly they are not fooling the members of the Democratic Party.

Mr. Speaker, this is a practical matter. Representative government is just as strong today and stronger than it was in 1932 and 1931, stronger than it was in 1928, 1929, and 1930, when the Republicans were voting closed rules on the same type of legislation. So let the debate go on. Let us not fool ourselves on the question of a closed rule, even if they try to befog the minds of the American people. Bearing in mind the tremendous number of items included in this far-reaching tax bill, this proposition is a necessary one.

Mr. Speaker, I hope the rule will be adopted.

[Here the gavel fell.]

Mr. SABATH. Mr. Speaker, I move the previous question on the resolution.

The previous question was ordered.

The SPEAKER. The question is on agreeing to the resolution.

The question was taken; and the Speaker announced that the "ayes" appeared to have it.

Mr. FISH. Mr. Speaker, I demand the yeas and nays.

The yeas and nays were ordered.

The question was taken; and there were—yeas 204, nays 167, answered "present" 1, not voting 60, as follows:

[Roll No. 97]

YEAS—204

Allen, La.	Fitzpatrick	Lewis
Arnold	Flannagan	Ludlow
Barden	Fogarty	Lynch
Barry	Folger	McCormack
Beam	Forand	McGehee
Beckworth	Ford, Leland M.	McGranery
Beiter	Ford, Miss.	McIntyre
Bland	Fulmer	McKeough
Bloom	Gathings	McLaughlin
Boehne	Gavagan	McLean
Boggs	Gearhart	McMillan
Bonner	Geyer, Calif.	Mahon
Boykin	Gibson	Manasco
Bradley, Pa.	Gore	Mansfield
Brooks	Gossett	May
Brown, Ga.	Granger	Merritt
Bryson	Green	Mills, Ark.
Buck	Haines	Mills, La.
Buckley, N. Y.	Hare	Mitchell
Bulwinkle	Harrington	Monroney
Burgin	Harris, Ark.	Moser
Byrne	Harris, Va.	Murdock
Byron	Hart	Myers, Pa.
Camp	Harter	Nelson
Cannon, Fla.	Healey	Nichols
Capozzoli	Hébert	Norrell
Chapman	Hendricks	Norton
Clark	Houston	O'Leary
Claypool	Hunter	O'Neal
Cochran	Imhoff	O'Toole
Coffee, Nebr.	Jarman	Pace
Cole, Md.	Johnson, Calif.	Patton
Cole, N. Y.	Johnson, Luther A.	Peterson, Fla.
Colmer		Peterson, Ga.
Connery	Johnson, Lyndon B.	Pfeifer, Joseph L.
Cooley		
Cooper	Johnson, Okla.	Pierce
Costello	Johnson, W. Va.	Plauché
Courtney	Kee	Poage
Cox	Kefauver	Priest
Cravens	Kennedy, Martin J.	Rabaut
Creal		Randolph
Crowther	Kennedy, Michael J.	Rankin, Miss.
Cullen		Rich
D'Alesandro	Keogh	Richards
Davis, Ohio	Kerr	Rivers
Davis, Tenn.	Kilburn	Robertson, Va.
Dewey	Kilday	Robinson, Utah
Dickstein	Kirwan	Rogers, Okla.
Dies	Kleberg	Sabath
Dingell	Knutson	Sacks
Disney	Kocialkowski	Sanders
Domengeaux	Kopplemann	Sasscer
Doughton	Kramer	Schuetz
Drewry	Lanham	Schulte
Duncan	Larrabee	Shanley
Durham	Lea	Sheppard
Eberharter	Leavy	Sikes
Ellis	Lesinski	Smith, Conn.
Smith, Pa.	Sweeney	West
Smith, W. Va.	Tarver	Whelchel
Snyder	Taylor	Whittington
Somers, N. Y.	Terry	Wickersham
South	Thomas, Tex.	Williams
Spence	Thomason	Woodrum, Va.
Starnes, Ala.	Traynor	Worley
Steagall	Vincent, Ky.	Wright
Sullivan	Ward	Young
Sumners, Tex.	Wasielewski	Zimmerman
Sutphin	Weaver	

NAYS—167

Allen, Ill.	Graham	Ploeser
Anderson, Calif.	Grant, Ind.	Ramsay
Andresen, August H.	Guyer, Kans.	Reece, Tenn.
	Gwynne	Reed, Ill.
Angell	Hall, Edwin Arthur	Reed, N. Y.
Arends		Rees, Kans.
Baldwin	Hall, Leonard W.	Rizley
Bates, Ky.		Robertson, N. Dak.
Bates, Mass.	Halleck	
Baumhart	Hancock	Robsion, Ky.
Bell	Harness	Rockefeller
Bender	Heidinger	Rodgers, Pa.
Bennett	Hess	Rogers, Mass.
Bishop	Hill, Colo.	Rolph
Blackney	Hill, Wash.	Sauthoff
Bolton	Hinshaw	Scanlon
Bradley, Mich.	Hoffman	Secrest
Brown, Ohio.	Holmes	Shafer, Mich.
Burdick	Hook	Shannon
Butler	Hope	Short
Canfield	Howell	Simpson
Carlson	Hull	Smith, Maine
Carter	Izac	Smith, Ohio
Case, S. Dak.	Jackson	Smith, Wash.
Chenoweth	Jacobsen	Springer
Chiperfield	Jenkins, Ohio	Stearns, N. H.
Clason	Jennings	Stefan
Clevenger	Jenson	Stratton
Cluett	Johnson, Ill.	Sumner, Ill.
Copeland	Johnson, Ind.	Taber
Crawford	Jones	Talle
Crosser	Jonkman	Tenerowicz
Culkin	Kean	Thom
Cunningham	Kelley, Pa.	Tibbott
Curtis	Kelly, Ill.	Tinkham
Day	Kinzer	Tolan
Dirksen	Kunkel	Treadway
Dondero	Lambertson	Van Zandt
Downs	Landis	Voorhis, Calif.
Dworshak	LeCompte	Vorys, Ohio
Eaton	McGregor	Vreeland
Eliot, Mass.	Maciora	Wadsworth
Elliott, Calif.	Magnuson	Walter
Elston	Marcantonio	Weiss
Engel	Martin, Iowa	Welch
Englebright	Martin, Mass.	Wheat
Fellows	Mason	Wigglesworth
Fenton	Meyer, Md.	Wilson
Fish	Michener	Winter
Fitzgerald	Mott	Wolcott
Flaherty	Mundt	Wolfenden, Pa.
Flannery	O'Brien, Mich.	Wolverton, N. J.
Ford, Thomas F.	Oliver	Woodruff, Mich.
Gale	Osmers	Youngdahl
Gamble	Paddock	
Gehrmann	Pearson	
Gerlach	Pheiffer, William T.	
Gifford		
Gilchrist	Pittenger	

ANSWERED "PRESENT"—1

Casey, Mass.

NOT VOTING—60

Andersen, H. Carl	Gillie	Plumley
	Grant, Ala.	Powers
Anderson, N. Mex.	Gregory	Ramspeck
	Hartley	Rankin, Mont.
Andrews	Heffernan	Romjue
Barnes	Hobbs	Russell
Boland	Holbrock	Rutherford
Boren	Jarrett	Satterfield
Buckler, Minn.	Jenks, N. H.	Schaefer, Ill.
Burch	Johns	Scott
Cannon, Mo.	Keefe	Scrugham
Cartwright	McArdle	Sheridan
Celler	Maas	Smith, Va.
Coffee, Wash.	Maciejewski	Sparkman
Collins	Murray	Stevenson
Delaney	O'Brien, N. Y.	Thill
Ditter	O'Connor	Thomas, N. J.
Douglas	O'Day	Vinson, Ga.
Doxey	O'Hara	Wene
Edmiston	Patman	White
Faddis	Patrick	

So the resolution was agreed to.

The Clerk announced the following pairs:

On this vote:

Mr. Casey of Massachusetts for, with Mr. Ditter against.

Mr. Hobbs for, with Mr. Thill against.
Mr. Burch for, with Mr. H. Carl Andersen against.
Mr. Gregory for, with Mr. Keefe against.
Mr. White for, with Mr. Hartley against.
Mr. Anderson of New Mexico for, with Mr. Jarrett against.
Mr. Delaney for, with Mr. Powers against.
Mr. Grant of Alabama for, with Mr. Gillie against.
Mr. Heffernan for, with Mr. Scott against.
Mr. Satterfield for, with Mr. Stevenson against.

General pairs:

Mr. Doxey with Mr. Murray.
Mr. Smith of Virginia with Mr. Douglas.
Mr. Cannon of Missouri with Mr. Johns.
Mr. Boland with Mr. Rutherford.
Mr. Ramspeck with Mr. O'Hara.
Mr. Sparkman with Mr. Jenks of New Hampshire.
Mr. Vinson of Georgia with Miss Rankin of Montana.
Mr. Cartwright with Mr. O'Brien of New York.
Mr. Patman with Mr. Thomas of New Jersey.
Mr. Celler with Mr. Maas.
Mr. Barnes with Mr. Plumley.
Mr. Collins with Mr. Buckler of Minnesota.
Mr. Boren with Mr. Andrews.
Mr. McArdle with Mr. Edmiston.
Mr. Holbrook with Mr. Coffee of Washington.
Mr. O'Connor with Mr. Wene.
Mrs. O'Day with Mr. Maciejewski.
Mr. Patrick with Mr. Scrugham.
Mr. Sheridan with Mr. Romjue.
Mr. Schaefer of Illinois with Mr. Faddis.

The result of the vote was announced as above recorded.

ORDER OF BUSINESS

Mr. MARTIN of Massachusetts. Mr. Speaker, I ask unanimous consent to address the House for 1 minute.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

Mr. MARTIN of Massachusetts. Mr. Speaker, there is uncertainty as to the program for the next few days, owing to the fact that the rule provides for 3 days of general debate. May I ask the majority leader if he can tell us when we may expect to vote on this bill?

Mr. McCORMACK. I am very glad to answer the gentleman from Massachusetts.

It is hoped that the debate on the bill will close Friday, and that includes debate on the joint tax returns provision; but assuming the debate is closed on Friday, there will be no vote on the joint income-tax returns amendment in the Committee of the Whole until Monday, and, of course, no vote on the bill in the House until Monday.

Mr. MARTIN of Massachusetts. Do I correctly understand from that statement that the discussion as to the joint tax returns will be on Friday?

Mr. McCORMACK. It is my understanding that that is the intention and the desire.

Mr. MARTIN of Massachusetts. I wonder if we could not arrange to have that debate fall on Monday.

Mr. McCORMACK. I would rather yield to the gentleman from North Carolina on that.

Mr. DOUGHTON. Of course, we had hoped to conclude debate and vote on the bill this week, but obviously that arrangement will not be entirely satisfactory. Any agreement reached by the leadership of the House—and in that I include the Speaker and the majority and minority leaders—with regard to procedure will be satisfactory to the chairman. I am very hopeful that we can at least conclude the debate this week, but the chairman of the committee will concur in any agreement or understanding that may be reached on procedure by the leadership of the House.

Mr. McCORMACK. As far as I am concerned, expressing my own opinion, and I express it as a hope, I am perfectly willing that there be some debate on Monday. In addition to the joint tax returns amendment, if there are committee amendments it is understood that none of them will be voted on until Monday and, of course, that means not offered. I hope that arrangements may be made to have some of the debate on the joint tax returns amendment on Monday, because Members who are interested in that will be away the latter part of this week.

Mr. MARTIN of Massachusetts. I thought we might conclude general debate and then devote Monday entirely to the joint tax returns amendment.

Mr. COOPER. Mr. Speaker, will the gentleman yield?

Mr. MARTIN of Massachusetts. I yield to the gentleman from Tennessee.

Mr. COOPER. The practical situation is this: The rule provides for 3 days of general debate; that would be today, Wednesday, and Thursday, and Friday. If the House is not in session on Saturday, that would mean that the bill would be taken up on Monday for the consideration of amendments. The joint returns provision amendment is one that is provided for under the rule. The committee will have three amendments to be considered. Therefore, I assume that if general debate is concluded on Friday the bill will have to be taken up for admendment on Monday, if the House is not in session on Saturday.

Mr. MARTIN of Massachusetts. That would be perfectly satisfactory.

Mr. McCORMACK. It is my intention to ask unanimous consent that the House adjourn over Saturday.

Mr. MARTIN of Massachusetts. I do not believe the gentleman will have any difficulty in getting that consent.

May I ask the gentleman from Tennessee if we may know how much time will probably be allocated to the various amendments? Has any thought been given to that question?

Mr. COOPER. I cannot imagine that there would be debate of any length on the three committee amendments, because, as I recall, they were unanimously agreed to by the committee.

Mr. MARTIN of Massachusetts. There will be a disposition to be liberal as to time for debate on the other amendment?

Mr. COOPER As far as the amendment with respect to the joint returns is concerned, under the rules of the House there would be 5 minutes for and 5 minutes against. Any addition to that would be in the control of the committee of the whole.

Mr. McCORMACK. It is my understanding, then, that general debate will proceed for the remainder of the week and that debate on the joint income-tax returns amendment and on the committee amendments will go over until Monday. Of course, the votes will automatically follow and go over until Monday.

Mr. MARTIN of Massachusetts. The committee will have control of the time on the amendments on Monday?

Mr. McCORMACK. I believe we can adjust that question at that time. That can be taken care of very easily.

Mr. JENKINS of Ohio. Mr. Speaker, will the gentleman yield?

Mr. MARTIN of Massachusetts. I yield to the gentleman from Ohio.

Mr. JENKINS of Ohio. Is there anything that will come up Monday morning under the rules of the House that will take precedence over the consideration of this bill? In other words, when we meet on Monday morning, immediately after the reading of the Journal will someone move that the House resolve itself into the Committee of the Whole?

The SPEAKER. The Consent Calendar is in order on Monday, and its consideration will probably take 30 or 40 minutes.

Mr. McCORMACK. There will be no interference with that, I assume.

THE REVENUE BILL

Mr. DOUGHTON. Mr. Speaker, I move that the House resolve itself into the Committee of the Whole House on the state of the Union for the consideration of the bill (H. R. 5417) to provide revenue, and for other purposes.

The motion was agreed to.

Accordingly the House resolved itself into the Committee of the Whole House on the state of the Union for the consideration of the bill (H. R. 5417) to provide revenue, and for other purposes, with Mr. COLE of Maryland in the chair.

The Clerk read the title of the bill.

Mr. COOPER. Mr. Chairman, I ask unanimous consent that the first reading of the bill be dispensed with.

The CHAIRMAN. Is there objection to the request of the gentleman from Tennessee?

There was no objection.

Mr. DOUGHTON. Mr. Chairman, I yield myself 30 minutes and ask unanimous consent to revise and extend my remarks in the RECORD.

The CHAIRMAN. Is there objection to the request of the gentleman from North Carolina?

There was no objection.

Mr. DOUGHTON. Mr. Chairman, in presenting this bill to you this afternoon I naturally assume that every member of the committee realizes not only the importance but the necessity of this or similar legislation to carry forward our national-defense program and effect our economic security. While I shall not decline to yield to any member of the committee who may desire to propound any question while I am making my remarks, I would prefer to proceed without interruption until I have concluded my main statement. In fact, I may say that if any Member of the House has not familiar-

ized himself or herself with the provisions of this bill by reading the report which is full and quite comprehensive, he can get more complete information by a study of the report than any information any member of the committee could give in the brief time he would have to answer questions. The chairman of the committee endeavored last week to have a copy of the report sent to the office of each Member of the House. As this is such an important measure not only to the membership of the House but to the entire country, I was very anxious that before the bill came up for consideration the Members of the House should have every opportunity to ascertain so far as they desired, the purposes and provisions of the measure.

I have reduced my main statement to manuscript for the reason that every utterance of one in official life, and especially one holding the responsible position that I and other members of the Ways and Means Committee hold with respect to this proposed legislation, is scrutinized and analyzed and put under the microscope and I am very anxious that what I say may not be misunderstood. A few days ago when I appeared before the Committee on Rules to request a rule making this bill in order, quite unexpectedly some discussion arose with respect to a future tax bill and I was quoted by the newspapers, possibly correctly, but the statement I made was made on the spur of the moment and I was quoted as announcing myself in favor of a general sales tax. What I intended to say was that there would doubtless be necessity, not only need but necessity, in the next year, but I hoped there would not be this year, for another tax bill and that increased taxes would be necessary and, probably, additional taxes. I reiterate that statement and in that connection I intended to say that I would not reject nor prescribe any type of tax that might be necessary to the preservation of our liberties and the perpetuity of our Government.

So far as a sales tax is concerned, a manufacturer's sales tax or a retail sales tax, as a general proposition, I am inherently opposed to such a method of taxation. However, if our emergency continues, as now seems probable, then I would not say that any reasonable tax, any tax that ever has been resorted to or that in the minds of reasonable people should be considered, is beyond the realm of probability. I would not say I would proscribe or reject such a tax, because taxes unheard of and sacrifices not hitherto made by all taxpayers and by all the American people will doubtless be necessary in the financing of our preparedness program and providing for the economic safety and security of our Government.

Mr. Chairman, in presenting the tax bill now before you for consideration, the largest in the history of our Government, I assume that the membership of this body understands full well the necessity of this or some similar measure to the national defense and the financial security of our Nation.

The national-defense program is of paramount interest to the American people and our national safety should be to everyone a matter of highest consideration. In fact, all people everywhere who cherish liberty, freedom of speech, and freedom of action are tremendously concerned in the success of our preparedness effort. Therefore I do not deem it necessary to dwell upon the urgent need of the enactment of this bill.

The Congress has already appropriated vast sums for the normal and extraordinary expenses of the Government, estimated at present at $22,000,000,000 for the fiscal year 1942.

There is no method of meeting these costs except by taxation. Borrowing is but the anticipation of future taxes—a device by which we spend in the present and pay in the future. Certainly no well-informed person believes we can meet the entire cost of our present preparedness program, together with other necessary expenses for the support of the Government, by taxes sufficient to pay as we go. We certainly should, however, pay as much as our economy will allow. As to just where this limit is, there is, of course, honest difference of opinion.

At the outset of my remarks I wish to pay special tribute to my fellow members of the Committee on Ways and Means for their unselfish devotion to duty in the preparation of this bill.

I have never known the membership of our committee to labor more conscientiously and quite so zealously in the preparation of a tax bill.

Party affiliations were forgotten and personal preferences made secondary to the all-important need of the Nation.

While there were many differences of opinion to be reconciled by deliberation, I take great pride in the fact that never once was there shown the slightest degree of partisanship in the discussion of the bill or in the votes taken by the committee. No observer of our deliberations could have ascertained from the actions of the members any indications of their party affiliations.

The minority members of our committee who have cooperated wholeheartedly and unselfishly in the preparation of the bill are entitled to as much credit and have the same responsibility for what the bill contains as the majority members. Also the Treasury staff, headed by Hon. John Sullivan, Assistant Secretary of the Treasury, and our staff on internal-revenue taxation, under the leadership of Hon. Colin F. Stam, chief of staff, have worked day and night in the preparation of the bill. Great assistance has been rendered also by the legislative counsel, Mr. Beaman, and his very able lieutenants.

The bill is without parallel in the amount of revenue it, in conjunction with the taxes under existing law, will provide. It lays a substantial increased burden upon the American people and will entail considerable sacrifice. However, I feel certain that the American people place no dollar sign on their liberty and freedom, and will uncomplainingly bear any burden that is considered necessary to assure to them and their posterity the blessings of liberty and freedom wrought out by our forefathers.

The figure of three and a half billions of dollars, which is the amount proposed to be raised by the present bill, was arrived at in a conference where representatives of the Committee on Ways and Means, the Committee on Finance, and the Treasury officials participated, and will be the total added burden to our present taxes that we felt could be safely laid upon our economy at the present time.

Your committee deliberated over the measure for more than 3 months. It held public hearings covering a period of about 5 weeks, during which more than 200 witnesses appeared. Everyone was heard who so requested. The hearings contain more than 1,800 pages. More than 300 briefs, letters, and telegrams were received and incorporated in the record.

Of course, the bill does not represent the precise views of any member of the committee, but it does represent the composite judgment of our committee. It is impossible to raise three and one-half billion dollars in additional taxes and please everybody. Frequently those who know least about the subject or those who have given it little or no study are the most vocal in their criticism.

In general, the bill adopts a middle course. Extremes have been avoided, and no fanciful or fantastic plans are incorporated in its provisions. We sought earnestly to lay the increased and added burdens where they could be borne with the least hardship, and every effort was made to distribute the load fairly and equitably among the various types and classes of taxpayers.

Rates in the top brackets of our tax schedules are already very high, and, because of the comparatively small number of taxpayers in the highest income brackets, increased rates there would produce very little additional revenue.

The bill increases personal income taxes, corporation taxes, including the excess-profits taxes, gift and estate taxes, and excise taxes imposing some new excise levies.

It is estimated that of the $3,500,000,000, that $2,475,000,000 will be derived from corporate and individual income taxes, $152,000,000 additional from estate and gift taxes, and about $900,000,000 from excise taxes. The table on pages 3 and 4 of the report sets out in detail the items contained in the bill and the expected revenue therefrom. The figures contemplate a full year of operation.

Due consideration has been given by our committee to the economic and social effects of the increased levies. There was continually kept in mind the need of preventing any disruption of our economy and also the supplying of needed restraint upon inflationary tendencies.

The bill, like every tax bill, has its measure of complexity but, on the whole, it is less technical than most of the prior bills reported by our committee. Certain provisions of the bill can be readily and easily understood by a simple reading of the text, but for an understanding of other parts it will be necessary to refer to the committee report for explanation and examples.

Except for the technical changes necessary to carry out the increased rates and changed bases, the bill is confined to

rate structures and other direct provisions calculated to yield additional revenue. Because of the necessity for letting the American people know as soon as possible what to expect in the way of new and added taxes, it was felt that this bill should be restricted to the rate structures necessary to produce the desired revenue. It is hoped that this bill can be followed by a technical bill, designed to take care of many needed changes in the Internal Revenue Code.

For a year of full operation the bill will produce additional revenue as follows: Individual income taxes, $1,152,000,000; corporation income taxes, $124,600,000; corporation excess-profits taxes, $1,198,300,000.

In that connection, the excess-profits tax as contained in existing law would yield on 1941 incomes about $1,026,000,000, without the increases contained in the bill. So those of you who may think we have dealt too gently or too tenderly with the matter of excess-profits taxes will see that we have endeavored as far as we could to see that no millionaires are made as a result of this great national emergency.

Estate taxes, $135,900,000; gift taxes, $16,000,000.

The capital-stock tax we have increased from $1.10 to $1.25 per thousand, or a capital-stock tax increase of $22,300,000.

Manufacturers' and retailers' excise taxes, $514,900,000; miscellaneous taxes, $365,200,000; or a total increase of $3,529,200,000.

The yield for the fiscal year 1942, under the present tax law, is estimated to be $9,400,000,000.

Now, it is estimated that our appropriations for the fiscal year 1942, as far as we can see now, for normal and national-defense purposes, will amount to about $22,000,000,000. This approximately $13,000,000,00 is 60 percent of that amount.

During the World War we only attempted to raise about 33⅓ percent, but under this bill the total amount raised, when this bill is in full effect, by taxation, will be as I have said, about $13,000,000,000.

Mr. KNUTSON rose.

Mr. DOUGHTON. You can thus see that we endeavored as far as we reasonably and safely could, within an amount which we felt the American taxpayers could reasonably bear, to take care of this larger percentage of both our normal and emergency expenditures.

Mr. Chairman, I yield to my distinguished friend from Minnesota.

Mr. KNUTSON. The gentleman has covered the point I was going to mention, which was that this bill raises more money than we raised in taxes during the first World War.

Mr. DOUGHTON. Undoubtedly, and with a much higher percentage of expenditures.

This bill deals with individual income taxes, corporation taxes, gift and estate taxes, and excise taxes. With respect to the individual income tax, the increases are accomplished through the surtax rates rather than through the normal tax rates. The surtax, provided by the bill, applies to the first dollar of net income in excess of the personal exemption and credit for dependents, while, under existing law, the first $4,000 of surtax net income is not taxed. The surtax rates begin at 5 percent instead of 4 percent, and are graduated steeply so as to effect a substantial increase in the lower and middle brackets.

For example, a single man with no dependents and a net income of $1,000 pays $4.40, or about one-half of 1 percent of his net income, under existing law. Under the bill he would pay $15.40, or about 1½ percent. If he makes $5,000, he would pay $171.60, or about 3½ percent under present law, while under the bill he would pay $473, or about 9½ percent of his net income. Should he make $10,000, his present tax would be $686.40, or almost 7 percent. Under the bill, he would be charged $1,469.60, or almost 15 percent.

A married man with no dependents, whose income is $2,500, would pay under existing law $11, or less than one-half of 1 percent. Under the bill he would pay $38.50, or 1½ percent of his net income. If he made $5,000, he would pay $110, or a little more than 2 percent under existing law, while under the bill he would pay $308, or about 6 percent. With an income of $10,000 he would pay $528, or a little more than 5 percent under present law. Under the bill, he would pay $1,166, or almost 12 percent.

These examples will give a general idea of the proportion of the income-tax increases in the lower brackets.

Your committee did not deem it desirable to reduce the personal exemption and credit for dependents. No action was taken in this respect despite a considerable sentiment for broadening the income-tax base by decreasing exemptions and credits. Very careful attention was given to this proposition, but it has been clearly demonstrated that the bulk of the additional revenue to be derived from such action would not be secured from new taxpayers but would be paid by persons already liable to tax.

Last year we lowered the personal exemption of married persons from $2,500 to $2,000, and of single persons from $1,000 to $800. This exemption for married persons is as low as it has ever been in our income-tax history, even during the World War period. For single persons, the personal exemption is $200 lower than it has ever been.

Our action in this respect last year produced 8,000,000 new tax returns but less than 2,000,000 new taxpayers. From these new taxpayers about $12,000,000 was derived, but it cost $8,000,000 to handle their returns. Thus, as regards new taxpayers, the Government derived a net benefit of about $4,000,000 from approximately 2,000,000 taxpayers. At the same time, this broadening of the base served to get a substantially increased amount from persons who were already liable for income taxes. In the present bill we have reached this latter class by increased rates and the former by increased and added new excise taxes.

The bill as reported by your committee contains a provision requiring husband and wife living together to report their income in a single joint return and to compute their tax on their combined income, instead of allowing each to file a separate return as now allowed by existing law. It should be noted, however, that the tax liability at the request of either spouse, may be allocated proportionately between them.

This provision has aroused more opposition, it seems, than any other item in the bill, whereas, in my opinion, it should have received the unanimous approval of the country.

Much of this opposition is no doubt inspired by those who, when this provision is enacted into law, will no longer enjoy a special tax privilege at the expense of the vast majority of individual income taxpayers of the Nation.

Under the present law if the entire income of the family is earned by the husband the family is required to pay a greater tax than a family with a like amount of income divided between the husband and wife. For example, a family having a net income of $10,000, all earned by the husband, would be required to pay, under the rates proposed by this bill, $286 more than another family having the same amount of net income, one-half of which was earned by the wife. Under the mandatory joint-return provision of this bill both families would pay the same amount of tax. How can anyone object to this fair and impartial treatment?

Likewise, families living in different sections of the country under present law pay a different tax on the same amount of net income merely because they happen to be residents of a particular State. For example, with respect to families living in North Carolina or any of 38 other States in the Union, the husband earning a salary of $10,000 pays income tax on the entire $10,000. Whereas in California, Texas, Louisiana, Washington, Nevada, Idaho, Oklahoma, New Mexico, or Arizona, he pays tax on $5,000 and his wife pays tax on the remaining $5,000, thus bringing their net income into lower surtax-rate brackets.

The present law also discriminates against a family living in a non-community-property State receiving all or a greater part of the income from earnings, as contrasted with a family receiving all or the greater part of its income from investments.

The committee feels that the division of income between husband and wife as a tax-saving device has no equitable basis, as it results in an unequal distribution of the tax burden as between families. The enactment of the mandatory joint-return provision contained in the pending bill will result in a more equitable distribution of the tax burden. It will also remove the existing discrimination against earned income in favor of investment income, and make the Federal income-tax law applicable to all taxpayers alike regardless of State lines.

Some commentators and others have sought to leave the impression that the mandatory joint-return provision will result in placing this additional tax burden principally upon the small-income taxpayers of the country. As a matter of fact, it will not affect a family,

having no dependents, unless its income is in excess of $4,000; and for each dependent, the net income would have to be increased by $400 before the joint-return provision would result in an increase in tax.

I want to emphasize as strongly as I can that this is not a community-property issue, that it applies to all 48 States alike, and that it merely seeks to place the taxpayers of all of our 48 States on the same tax basis. It will only affect those most able to pay.

However, since our friends from the community-property States have taken the leadership in opposition to the joint-return provision, I want to call their attention to the fact that when we give special tax privilege to some families, other families and taxpayers not enjoying such privilege must necessarily pay more than they would otherwise have to pay. I want to call their attention to the table on page 16 of the committee report which shows that in the State of California, the 213,009 families already voluntarily filing joint returns must necessarily pay more in taxes if we continue to allow a special tax privilege to the 28,580 families now filing separate returns. In Texas, 99,248 families must pay more in order that 17,267 families might enjoy special tax privilege. In the eight community-property States for which statistics are available, 307,173 families must pay more in order that 60,434 families can continue to enjoy a special tax privilege. You will also note from this table that the 2,866,026 families now voluntarily filing joint returns in the United States are necessarily paying more in order that 175,026 families filing split income-tax returns might enjoy this tax advantage.

I have had a table prepared, which I will insert in my remarks at this point, showing the total number of income-tax returns filed in 1938, by States, those filed by single persons and nonheads of families, as well as by families. This table will show the number of returns that will be affected by the mandatory joint-return provision, or in other words, those who are receiving special tax privileges as compared with those who are now being penalized in favor of those affected by the joint-return group to the total.

Total number of individual income-tax returns filed in 1938 by single persons, married couples filing joint and separate returns, nonheads of families, and community property returns, by States

State	Total number of returns filed	Number returns receiving tax advantage [1]	Number returns receiving no tax advantage [2]	Percent of total	
				Receiving tax advantage	Receiving no tax advantage
Ala	39,010	1,536	37,474	3.9	96.1
Ariz	20,447	2,522	17,925	12.3	87.7
Ark	19,627	767	18,860	3.9	96.1
Calif	523,696	57,161	466,535	10.9	89.1
Colo	41,701	1,878	39,823	4.5	95.5
Conn	130,880	7,065	123,815	5.4	94.6
Del	16,557	1,369	15,188	8.3	91.7

[1] Group consists of community property returns and separate returns of husbands and wives living together.
[2] Group consists of joint returns of husbands and wives living together, and single men and women, and married men and women, not living together, who are heads of families, or nonheads of families.

Total number of individual income-tax returns filed in 1938 by single persons, married couples filing joint and separate returns, nonheads of families, and community property returns, by States—Continued

State	Total number of returns filed	Number returns receiving tax advantage	Number returns receiving no tax advantage	Percent of total	
				Receiving tax advantage	Receiving no tax advantage
Dist. Col	113,425	5,004	108,421	4.4	95.6
Fla	55,940	4,267	51,673	7.6	92.4
Ga	58,003	2,749	55,254	4.7	95.3
Hawaii	18,893	1,017	17,876	5.4	94.6
Idaho	13,223	1,713	11,510	13.0	87.0
Ill	493,482	20,546	472,936	4.2	95.8
Ind	121,539	3,964	117,575	3.3	96.7
Iowa	74,900	2,446	72,454	3.3	96.7
Kans	51,730	2,007	49,723	3.9	96.1
Ky	53,453	2,695	50,758	5.0	95.0
La	59,019	10,399	48,620	17.6	82.4
Maine	26,676	1,331	25,345	5.0	95.0
Md	134,637	6,351	128,286	4.7	95.3
Mass	297,680	17,183	280,497	5.8	94.2
Mich	273,678	9,243	264,435	3.4	96.6
Minn	107,238	4,066	103,172	3.8	96.2
Miss	19,823	925	18,898	4.7	95.3
Mo	143,662	6,067	137,595	4.2	95.8
Mont	27,976	551	27,425	2.0	98.0
Nebr	39,209	1,331	37,878	3.4	96.6
Nev	8,969	918	8,051	10.2	89.8
N. H	20,936	1,093	19,843	5.2	94.8
N. J	301,186	13,481	287,705	4.5	95.5
N. Mex	13,690	1,900	11,790	13.9	86.1
N. Y	1,052,402	53,955	998,447	5.1	94.9
N. C	50,224	2,993	47,231	6.0	94.0
N. Dak	11,418	312	11,106	2.7	97.3
Ohio	343,532	12,565	330,967	3.7	96.3
Okla	55,762	3,360	52,402	6.0	94.0
Oreg	53,584	1,609	51,975	3.0	97.0
Pa	499,885	19,036	480,849	3.8	96.2
R. I	40,758	1,744	39,014	4.3	95.7
S. C	24,000	1,078	22,922	4.5	95.5
S. Dak	11,757	299	11,458	2.5	97.5
Tenn	57,861	2,194	55,667	3.8	96.2
Tex	205,254	34,534	170,720	16.8	83.2
Utah	19,177	722	18,455	3.8	96.2
Vt	13,563	462	13,101	3.4	96.6
Va	72,217	2,755	69,462	3.8	96.2
Wash. [1]	106,472	11,884	94,588	11.2	88.8
W. Va	53,744	1,760	51,984	3.3	96.7
Wis	146,565	6,051	140,514	4.1	95.9
Wyo	11,716	356	11,360	3.0	97.0
Total	6,150,776	351,214	5,799,562	5.7	94.3

[1] Includes Alaska.

For example, I find that in my home State of North Carolina, 47,231 persons filing income-tax returns in 1938 are being required to contribute more in order that 2,993 might file separate returns and thereby reduce their tax liability. In the State of Ohio, 330,967 are being asked to contribute more in order that 12,565 might continue to enjoy a special tax advantage; here in the District of Columbia, 108,421 taxpayers, many of whom are $1,200 and $1,400 Government typists and clerks, are being asked to contribute more in order that 5,004 husbands and wives, many no doubt also on the Government pay roll, might be allowed to continue to file separate returns and enjoy a special tax privilege.

There has also been considerable criticism of this provision on the ground that it does away with the rights of married women and reduces them to their former state as the chattel of the husband. Nothing could be further from the truth, and those using that argument have obviously given no study to the provisions of the bill relating to joint returns. If a married woman's property rights are in any way affected by this provision, they are strengthened, not weakened, because she and her husband are placed on exactly the same footing and are treated as equals for tax purposes.

Simply stated, your committee has done nothing except to determine upon a new base for the computation of the tax liability of each partner to the marital community, and in so doing has put them on a par with other taxpayers and has closed a glaring loophole in our existing law. Before leaving this subject, I should like to insert at this point the following letter, which eloquently sums up the arguments for this proposition:

LORD, DAY & LORD,
New York, N. Y., July 17, 1941.

HON. ROBERT DOUGHTON,
Chairman, Ways and Means Committee,
House of Representatives,
Washington, D. C.

SIR: Upon my return from vacation it was brought to my attention that there appeared in the New York Times on July 5, 1941, a statement to the effect that the Committee on Taxation of the New York State Bar Association, of which I am a member, had made a report opposing compulsory joint income-tax returns for husbands and wives. I was away at the time this report was made and hence did not have an opportunity to register my dissent. I write to go on record to the effect that I am in favor of requiring joint returns from husbands and wives. I have already said so in an article which I wrote for the spring 1940 issue of Law and Contemporary Problems entitled "The Problem of Personal Income-Tax Avoidance" (pp. 252–253 and 264). In fact, I went further and suggested that husbands and wives and minor children living together be required to file composite returns.

Stated briefly, my reasons for favoring compulsory joint returns are as follows:

1. I see no other politically practicable method of eliminating the unfair advantage enjoyed by residents of community property States. Obviously, there is no sound foundation for a rule which makes the Federal income tax depend upon where the taxpayer lives and which requires a married couple living in New York, for example, to pay a much higher tax than if they lived in California. (This assumes, of course, that one spouse earned all or nearly all of the income.)

2. I see no reason why there should be an income tax disparity between a family where the husband is the sole source of income and a family where the wife contributes. The family, generally speaking, will spend approximately the same amount for rent, food, support of children, etc., whether its income stems entirely from the husband or derives in part from the wife. Why should not its income-tax bill likewise be the same?

3. I do not know of any persuasive arguments against compulsory joint returns. All the emotional claptrap that has appeared in the newspapers about the sanctity of marriage, religion, and morals is drivel. None of the commentators has bothered to point out that compulsory joint returns have been required under British income-tax law for a long, long time, and no one has argued that this requirement has seriously increased the British divorce rate or impaired British morals.

In the aggregate, taxes are not avoided. The Government must have money to exist, and it must obtain at least a part of this money by taxation. If one taxpayer contributes less than his share, it simply means that all other taxpayers must pay more. If the people in the non-community-property States were made to realize that they are required to pay higher income taxes because the people in the community-property States enjoy tax privileges, they would be less likely to oppose compulsory returns. Moreover, in the vast majority of families in this country, practically all of the family income is earned

by the husband. If joint returns are not required, the families of this vast majority will have to pay a higher tax than the families in the minority group. Thus, if John and Mary have an income of $10,000 per annum, all of which is earned by John, they would under the proposed 1941 rates pay a tax of $1,100. But if Henry earns $5,000 a year and his wife, Elizabeth, received $5,000 of income from property which she has inherited or which Henry has perhaps given her, the aggregate tax would be only $840. Thus John and Mary would pay a tax 30 percent greater than that of Henry and Elizabeth, even though each family had the same aggregate income and enjoyed the same standard of living.

The argument that compulsory joint returns would penalize marriage and discourage home building is, to my mind, sheer nonsense. Any prospective marriage which is broken up because of the possibility of higher income taxes is probably not worth very much. Moreover, compulsory joint returns might encourage marriage between a rich spouse and a poor one, and I have never heard anyone complain that this is an undesirable result.

I hope that your committee will stick to its guns and that it will not be influenced by the hue and cry of those who are not disinterested and those who are uninformed.

In view of the fact that I am chairman of the taxation committee of the association of the bar of the city of New York, I add that the views expressed above are my personal views and not those of the committee.

Respectfully,

HARRY J. RUDICK.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield myself 10 additional minutes.

Bear in mind that if this mandatory joint return provision is stricken out it means we must find some other means of raising this $304,000,000. I wish someone would tell me where, with as little burden, we can raise this amount of additional revenue which we would have to raise if this provision is not retained in the bill. It will have to be raised by increasing other taxes or by the imposition of new taxes or we shall fall short of reaching the goal we set out to reach. If anyone can tell me where we can raise this $304,000,000 I will yield to him for that purpose.

Mr. GIFFORD. Would the gentleman like for me to tell him?

Mr. DOUGHTON. I certainly would; but bear in mind I said with as little burden—and I must ask the gentleman to do it briefly.

Mr. GIFFORD. Oh, yes; very briefly; yes.

What about these bonds and stocks that pay no dividends and no taxes? My real estate pays no dividends but is taxed at $30 a thousand. I have advocated this bond tax, but the gentleman's party pays no attention to me. Why do you not do it?

Mr. DOUGHTON. I did not write the tax bill myself, I may say to the gentleman from Massachusetts; and if I had, it would not have been as good a bill as it is; it would have been much more imperfect. In our deliberations in the committee we did not feel that at this time we had sufficient information to deal with the subject. I may say to my distinguished friend from Massachusetts that before we impose any tax we endeavor to get as full information as we can as to the equity of the tax and its effect upon those who will have to pay it. We did not have sufficient information before us to deal with such a tax in this revenue act. How much revenue does the gentleman estimate such a tax would yield?

Mr. GIFFORD. I submit to the gentleman that if it were taxed at $3 per thousand, as it ought to be, income from the tax-exempt stocks and bonds would be sufficient so that the committee could probably get the whole $3,500,000,000 from that source alone. We have argued that here before. I have taken it up time and time again.

Mr. DOUGHTON. I appreciate the gentleman's suggestion. I do not take any exception to the gentleman's statement. I always appreciate any suggestion, especially when it comes from so able a Representative as my good friend from Massachusetts. Mr. Stam, here, chief counsel of our committe, and chief of the staff of the Committee on Internal Revenue Taxation, has given the subject much study. He states it would be a direct tax and would be unconstitutional; that the only way we could do it, the only way we could provide legal authority for it, would be by way of constitutional amendment; and the gentleman knows we could not adopt a constitutional amendment in time to meet this emergency.

I hope that is a satisfactory answer.

Mr. GIFFORD. I thank the gentleman. I have debated this time and again. I cannot accept the gentleman's explanation that it would be unconstitutional, because under the present Supreme Court we do not know what is unconstitutional. We never did consider that.

Mr. DOUGHTON. We had no opinion from the Supreme Court of the United States, but we have an opinion from our own supreme court, our own counsel. This is no reflection on the Supreme Court, but I doubt if many men on the Supreme Court of the United States or any other body are better qualified on tax matters to render a safe, wise, sound decision than is our counsel.

Mr. GIFFORD. I grant all that.

Mr. DOUGHTON. He has been with it day and night.

Mr. GIFFORD. While the gentleman is on his feet, may I suggest something else?

Mr. DOUGHTON. Certainly .

Mr. GIFFORD. I think the gentleman has the time. I wish he would discuss the argument that has been presented to his committee on consolidated joint returns being compulsory, the moral argument that has been presented to his committee. Was it a good argument?

Mr. DOUGHTON. I do not think it was a good argument at all. Those who are objecting to consolidated joint returns are doing two things: In the first place, they have a most widespread propaganda organization.

Mr. GIFFORD. Would it bring about immorality?

Mr. DOUGHTON. No. It has not done so in Great Britain although it has been a part of their income-tax law since 1914.

Mr. GIFFORD. That is the point. I hear this argument: Are the morals of the English people quite up to ours relating to women?

Mr. DOUGHTON. I am sorry; I am not an authority on that. May I say to the gentleman that this subject of joint returns will be discussed in detail later, and I hope the gentleman will be here.

Mr. GIFFORD. I want to discuss that also.

Mr. DOUGHTON. That will be discussed by the gentleman from Indiana [Mr. BOEHNE] and by the gentleman from Oklahoma [Mr. DISNEY]. They specialized on that subject and they will be able to answer any legal questions and will be able to make a legal argument or any other argument that is pertinent.

Mr. GIFFORD. I am very much interested in that immorality phase.

Mr. KNUTSON. Will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from Minnesota.

Mr. KNUTSON. May I say to the gentleman from Massachusetts that unfortunately we have no preachers on the committee so we are not prepared to discuss the moral aspects of this bill.

Mr. DOUGHTON. That will be covered by other gentlemen of the committee. We are endeavoring to bring bout equality in matters of taxation. What justification or excuse can be assigned for a man in California situated, as I am, with a salary of $10,000 a year, with no dependents, or the same number of dependents I have, and supporting the Government in which he is as vitally interested as I am, I repeat, what justification can there be for his paying less than I am paying? What excuse can we offer for not postponing the correction of this evil, wherein I pay $280 more on the same salary for the support of the same Government and situated exactly the same as he is?

I do not know of any reason or justification for it, but that is the situation today. In the State of California and these other community-property States, that is their business, so far as the States are concerned, but it is our business also, so far as raising taxes for the support of the Federal Government is concerned. That is our concern, and when the people of the United States understand that only 5 percent of the people avail themselves of the present law whereby they can make separate returns, they will also realize the situation. Five percent of the married couples filing income-tax returns get an advantage and a preference, thereby lightening their tax burden, and to the extent their tax burden is lightened, it must be imposed on the other 95 percent of married couples filing such returns, because when one class of people pays less than their share, another class of people must make that up and pay more than their share. How can we justify continuing that system? How can the Federal Government permit a system to continue whereby 5 percent, everyone of them able to pay Federal taxes, have an advantage and preference, and a heavier burden must be placed on the other 95 percent?

No change was made in the rate of the normal tax for corporations. However, in lieu of an increased normal tax, there was imposed a surtax of 5 percent on the first $25,000 of surtax net income

and 6 percent on the balance. This surtax is resorted to as the only effective method of reaching the interest from the large volume of partially tax-exempt securities held by corporations. It is felt that during this emergency corporations receiving liberty-bond interest should be required to pay at least this small amount for the support of the Government.

In the Second Revenue Act of 1940, an excess-profits tax was laid upon corporations. As a measure of excess profits a credit was allowed which was equal to the average-earnings experience of the corporation during the base period or, at its option, 8 percent of the invested capital. This alternative method was designed for purposes of equity, and experience has proved that it is essential to the prevention of hardships. No change has been made in the allowance of this optional method. The present excess-profits tax rates of from 25 to 50 percent have been increased by 10 percentage points in each bracket. Thus, those under the bill are graduated from 35 to 60 percent. In addition, the credit of 8 percent on invested capital is reduced by allowing only 7 percent of invested capital in excess of $5,000,000.

Under the present law, the amount of the income tax paid by corporations is allowed to be deducted in arriving at the excess-profits tax net income. The bill reverses this allowance and permits the excess-profits tax to be deducted in arriving at the normal and surtax net income. By this change, every dollar of excess profits is subjected to excess-profits tax. On pages 24 and 25 of the committee report, a thorough explanation of this provision and examples of its application will be found.

Under the present law those corporations, electing to use the invested-capital method, will pay no excess-profits tax unless their earnings exceed the percentage of invested capital allowed as a credit. In some instances, this has resulted in permitting corporations, whose earnings have been many times increased due to defense spending, to escape the payment of an excess-profits tax. Believing that every corporation, whose earnings have been increased by reason of the vast sums spent by our Government for national defense, should pay an added tax on such increased earnings your committee has incorporated in the bill a special 10-percent excess-profits tax. This special tax applies only to those corporations using the invested-capital base and is levied upon that portion of a corporation's increased earnings, which are not in excess of the invested-capital credit. Thus, the increased earnings, which would otherwise escape the excess-profits tax, are required to pay an excess-profits tax of 10 percent.

It is felt that there should be some inducement to the investment of new capital in corporate enterprise. The reluctance of investors to risk their money in corporations engaged in defense industries must be met with governmental funds. In order to encourage venture capital, your committee has granted an additional allowance of credit with respect to new capital paid in. For every $100 of money or property paid in for stock, the corporation's invested capital will be increased by $125. It is hoped that this provision will have a salutary effect upon companies engaged in producing defense materials.

An increase has been made in the estate- and gift-tax rates. On page 27 of the report will be found a table setting out the estate-tax rates under existing law and those under the bill. On page 28 the increase in the estate-tax burden is shown.

The majority of our excise-tax rates have been increased. In addition a number of new levies are imposed. In selecting the list of articles to be taxed, due regard has been given to the economic effect upon the businesses involved. Levies of this nature, we feel, are justified only by the urgent need for revenue and should be abandoned as soon as this need will permit. During times of emergency, however, excise taxes furnish the most satisfactory method of reaching the lower-income groups and of providing a device by which they, too, may contribute their share toward our defense effort.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield myself 12 additional minutes.

Mr. CRAWFORD. Will the gentleman yield to the gentleman from Michigan?

Mr. DOUGHTON. I yield.

Mr. CRAWFORD. May I ask the chairman this question: Based upon the most recent estimates of expenditures during the current fiscal year, how near will all the revenue from all the tax laws, including this one, come to balancing those expenditures? In other words, what percentage of the forthcoming fiscal year's expenditures will we raise by present laws, including the one now under consideration?

Mr. DOUGHTON. I am sure the gentleman did not hear me, or I did not make myself clear, because I said that according to the best estimates, we expect to spend in the fiscal year, 1942, about $22,000,000,000. Existing taxes will raise about $9,400,000,000 and the bill will produce additional revenue annually of about $3,500,000,000. Of course it will not produce that much this year because the excise taxes contained in the bill will not be in effect for the full year. In a full year, however, the bill, plus taxes contained in the present law, should produce more than $13,000,000,000, or about 60 percent of our expenditures.

Mr. CRAWFORD. I missed hearing that. I thank the gentleman.

Mr. DOUGHTON. Let me go a little further on this matter of the joint returns. It will be discussed ably by others.

As I stated, only about 5 percent of the married couples filing income-tax returns avail themselves of the permission in the present law whereby they can make separate returns, and 95 percent do not. In the State of North Carolina, 50,221 persons make income-tax returns. Those who make separate returns are 2,990, and those who make joint returns are 47,231.

In Ohio, the State of my good and able and distinguished friend, Mr. JENKINS, there are 343,522 persons who make income-tax returns. In that State, those who make separate returns, and who are evidently benefited and have a preference and an advantage by doing so, are 12,565, while those who have no benefit and who evidently pay more taxes on account of making joint returns are 330,967. In other words, only 3.7 percent of the people who make income-tax returns in the State of Ohio avail themselves of the provision allowing them to make separate returns.

Mr. JENKINS of Ohio. Mr. Chairman, will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from Ohio, my very able friend, for whom I have very great respect, because I referred to him.

May I say that I am going to place this entire table in the RECORD.

Mr. JENKINS of Ohio. I can reciprocate the gentleman's sentiments.

May I ask the chairman what he thinks about this situation. I appreciate what the chairman says about these statistics. They indicate that the great majority of the people in the States, when they have a chance to file separate returns, do not do so. A lot of them file joint returns. I believe that if the gentleman would investigate he would find that that is because so many husbands and wives have very small estates, and they do not always know whether or not the wife is included, and they just file a joint return to be safe.

Mr. DOUGHTON. I always give great weight to what my good friend says, because he studies these questions and always speaks very conscientiously, and very often convincingly, but not on this subject, I regret to say. I have reference to another purpose, and that is the patriotism and willingness of the great majority of the people of Ohio to bear their just share of the burdens of Federal taxation. They are not trying to avoid or evade taxes and get advantages that other States do not have. They just walk up patriotically and unselfishly and do what they think is right among taxpayers. That is the reason I think that is so.

Mr. JENKINS of Ohio. I think that is absolutely true.

Mr. RICH. Mr. Chairman, will the gentleman yield?

Mr. DOUGHTON. I want to pay a compliment to my good friend the gentleman from Pennsylvania [Mr. RICH]. While he may be overzealous on the subject, a man had better be overzealous than underzealous on a good subject. I admire the great fight he has made in this House for more economy. If more of us would follow the course he has pursued I am sure that some of the heavy burdens of taxation could be eliminated. I take off my hat to him for his fight for economy and for his patriotism.

Mr. RICH. I thank the gentleman very kindly for his remarks.

May I say that I do not like to tax people and I do not want to vote for the bill, but because of my patriotism I am compelled to vote for it. I know that we have to get taxes if we are going to save this Nation.

In regard to the joint returns, may I say that I understand that the right and privilege under the law belongs to an individual to make a separate return,

but I also understand that there are eight States where husbands are permitted to give credit to their wives for half of their earnings.

Mr. DOUGHTON. The law gives that to them; yes.

Mr. RICH. The State law gives that to them.

Mr. DOUGHTON. Yes. They can split their salaries. Under the law in the community-property States a man's wife gets half of every dollar that comes to him. They can split that income, and that puts them in lower tax brackets, and they get off with less taxes.

Mr. RICH. My wife and I make a joint return.

Mr. DOUGHTON. So do we.

Mr. RICH. But I am going to vote for this because I want to tax everybody in this country alike.

Mr. DOUGHTON. Of course.

Mr. RICH. I believe the only way to do it is to put this provision into the bill. As much as I dislike it, we have to take it and vote for it and let the people have it.

Mr. DOUGHTON. I am sure that if the American people understand this they will have redress from present inequalities in some way. If it should not be adopted in this bill when it finally becomes the law, the issue will be so acute and the people so well educated that they will understand the inequity and the injustice that obtains under present conditions, and the agitation and the effort to remedy the situation will not be stopped until the evil is corrected. I have no doubt about that.

Mr. RICH. Whenever we treat everybody in the United States alike, then nobody can criticize.

Mr. DOUGHTON. Until you do that, somebody has a grievance against you. You have no right to tax me higher than you tax somebody else under similar circumstances.

I take the position that the increased taxes some people will have to pay over what they are paying now will apply to those who are able to pay the increase, because this provision of our bill will not affect any family unless its income is $4,000 or above.

It is not going to affect the little fellow with an income of $1,500 or $2,000 or $2,500 or $3,000. It will not affect anyone unless he has an income of $4,000 or more.

Mr. GIFFORD. Mr. Chairman, will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from Massachusetts.

Mr. GIFFORD. I want to make a suggestion to the gentleman from Pennsylvania [Mr. RICH]. The gentleman from Pennsylvania wants to tax everybody alike, but the purpose of this particular provision of this bill is to try to make husband and wife love each other alike, and you cannot do that.

Mr. DOUGHTON. If they do not love each other, they have no business living together. If their matrimonial relations are based on no higher plane than the nerve of their pocketbooks, then I do not believe any harm would be done by changing the law in this respect, and the sooner we know that the better it will be. If that is as high a plane as they place their patriotism and support of their Government, and if they are denying themselves the great benefits that come from a truly Christian married life, then that part of the argument falls to the ground with me, although I have respect for anyone who may entertain that view if it is an honest opinion.

Now, Mr. Chairman, in conclusion may I say that we all understand the great emergency. We may differ in our opinions as to how to finance it or how far we should go, but as American people we realize that our only hope and our only salvation as far as this great emergency is concerned, the darkest hour that there has ever been in the history of our country, is the unity of our people which is absolutely necessary. I am glad our committee has set a fine example in putting aside partisanship and partisan advantage, and I hope the same thing will be done in this Committee and I hope by our actions here we will give the country convincing evidence that we, the Representatives of the American people, subordinate our own political considerations and our own personal interests and are willing to make sacrifices wherever and whenever we can and in every way necessary for the preservation of our liberties and the perpetuity of our Government.

Mr. RICH. Mr. Chairman, will the gentleman yield?

Mr. DOUGHTON. I yield to my friend.

Mr. RICH. I quite agree with the gentleman that we have got to make sacrifices and we have got to pay taxes and I do not believe this tax bill is going to be near enough unless——

Mr. DOUGHTON. I agree with the gentleman.

Mr. RICH. Unless we stop our extravagant spending, and if the Congress does not want to vote more taxes then they ought to do something to cut down the extravagant expenditures we are making for the things we are doing today.

Mr. DOUGHTON. I am not a member of the Committee on Appropriations, but I believe my distinguished friend from Pennsylvania is, and I am sure he will continue to exert every reasonable effort to the end that in this great emergency we take heed of our ways and not appropriate for anything that is not absolutely necessary. We need not blame the White House or the New Deal, because, as my friend, the gentleman from Tennessee [Mr. COOPER], so often emphasizes, not a dollar can go out of the Treasury of the United States unless authorized by the Congress. We hold the purse strings and the primary blame is with us.

Mr. RICH. But I would say that if the White House would show a little disposition to cut down and to tell the Members of the Congress that they do not want to spend, we would not spend so much.

Mr. DOUGHTON. That would be helpful.

Mr. RICH. But when the administration is trying to spend all the time, you cannot stop them.

Mr. DOUGHTON. That would be helpful but many of us are not in position to cast stones because we are not without fault ourselves.

Mr. RICH. I am, and I can tell the White House to stop spending and I am not afraid of them, and you gentlemen have got to the point where you should not be afraid of them either.

THE REVENUE BILL

Mr. TREADWAY. Mr. Chairman, I yield myself 20 minutes and ask unanimous consent to extend my remarks in the RECORD.

The CHAIRMAN. Is there objection?

There was no objection.

Mr. TREADWAY. Mr. Chairman, I shall start my remarks in the same manner that the chairman of the committee did. I have a rather long prepared statement I prefer to be allowed to read it quite completely without interruption, but I shall do as the chairman did and say that if any member of the Committee desires to ask me questions during the course of my reading, I shall yield for that purpose, although my preference would be to be permitted to go on without interruption.

Mr. Chairman, the Ways and Means Committee is today presenting to the House the largest single tax measure in our country's history.

It will increase the present tax burden by $3,529,000,000 to a total of approximately thirteen billions annually.

This is equivalent to $100 per capita, or $500 for every family of five, and is more than twice the highest annual collections under the World War revenue acts.

The necessity for a tax measure of such proportions as the present one is so apparent as to hardly require explanation. It is briefly stated in our minority report on the bill as follows:

> The Nation's finances are in a critical state, due to the extravagant spending and reckless borrowing under the New Deal administration during the past 8 years. This condition is now aggravated by the fact that unprecedented outlays for national defense are being required.
>
> It is obvious that a substantial increase in the tax burden is imperative if the credit of the Nation is to be preserved and the defense program is to go forward.
>
> We therefore have no alternative but to support the general objective of the bill in seeking to bring revenues and expenditures closer together.

The whole unpleasant picture is summarized in those few sentences.

Ever since the present administration has been in power, the New Deal spenders have been steadily undermining the fiscal security of the Nation by their prodigality.

They have squandered the public money and piled up a national debt which is now of such magnitude as to make further borrowing extremely hazardous from the standpoint of preserving the credit of the Government.

They have virtually exhausted the available sources of Federal taxation without at any time having balanced revenues and expenditures.

At the present time the Nation, after having been brought to a state of financial insecurity by the New Deal wastrels, now finds itself faced with the necessity of making stupendous and unprecedented outlays for national defense.

Already, the defense program involves total appropriations, authorizations, and new supplemental requests aggregating $50,000,000,000.

This is twice the direct cost of our country's participation in the World War, as reported by former Secretary of the Treasury Houston.

This great obligation will be superimposed on the swollen cost of the ordinary operations of Government under the New Deal. It is one which must, nevertheless, be met.

The New Deal spenders must assume the blame for the fact that it can only be met by imposing a crushing additional burden of taxation upon an already heavily taxed people, and by further straining an already strained public credit.

Fortunately for the Treasury Department and for the taxpayers of the country, the whole of the present defense program will not have to be financed in a single year. It is estimated by the Budget Bureau that actual defense expenditures in the current fiscal year will be in the neighborhood of $15,500,000,000. The cost of the civil functions of Government will bring the total expenditures this year to $22,169,000,000.

Estimated revenues from existing tax laws are placed at $9,400,000,000.

Thus, without any increase in taxes, and without any economy in nondefense expenditures, a deficit of nearly $13,000,000,000 for this year would be indicated.

Even under the most favorable conditions, a deficit of this size would be alarming. It is all the more so when it has to be added to a national debt which already stands at the colossal sum of $50,000,000,000, exclusive of some $6,000,000,000 more of guaranteed obligations.

In order not to place any additional strain on the public credit that can be avoided, it becomes necessary to increase Federal revenues and economize in Federal expenditures.

The Ways and Means Committee, under the rules of the House of Representatives, is only permitted to deal with the tax phase of this problem. It should be understood, however, that were it not for the fact that the committee's hands were tied insofar as the inclusion of an economy provision in the bill is concerned, such an item would undoubtedly have been written into the bill with unanimous Republican support.

Our Republican minority group on the Ways and Means Committee has many times asserted that we were opposed to continued increases in taxes upon the people unless some effort was made to eliminate waste and extravagance.

There was a time when the Ways and Means Committee handled both tax and appropriation matters. If this were the case today, I am confident that nondefense expenditures would not be at their present high level.

We who are charged with the responsibility of initiating tax legislation have a more unpleasant task than the Appropriations Committee. It is easy to spend money, but it is hard to raise it.

Billions upon billions are appropriated annually without any thought of where the money is coming from. If every appropriation bill had to provide its own means of financing, there is no doubt that much less would be appropriated.

I have for a long time thought that it would be a good thing if the Ways and Means Committee and the Appropriations Committee could get together at the beginning of each session to try to bring about some coordination between revenues and expenditures. I have a resolution pending in the Rules Committee at the present time—House Concurrent Resolution 6—which would set up a joint committee for this purpose, to be composed of members of the revenue-raising and appropriation committees of each body. However, I have not been able to secure consideration of the bill. There are several other measures of this character pending.

If such a group were set up, we might be able to make some headway in cutting down expenditures. Under the present haphazard system, the Ways and Means Committee, which must draft the legislation necessary to finance Government expenditures, is able to exercise no restraining influence, as a body, on the total amount of appropriations.

I do not wish to be understood as laying the entire responsibility for extravagant appropriations on any committee. A large part of that responsibility is on the House itself, not only for approving the appropriations as recommended but for the method by which it selects the members of the various committees.

It is well known that the work of the House is largely done through its committees and that the House itself must necessarily rely upon their recommendations.

Now, who are the Members who compose the committees in which these large expenditures are authorized? Members from agricultural sections naturally want to serve on the Agriculture Committee. Members from the Western States seek membership on the Committee on Irrigation and Reclamation. Those interested in securing funds for river and harbor improvements in their districts seek membership on the Committee on Rivers and Harbors. And so it goes, right on down the list.

With the committees, including the Appropriations Committee subcommittees, largely made up of men and women interested in seeking as much as possible for their respective districts and sections, how can we expect anything else than to have free spending of the Government's money, whether it has to be raised by taxation or borrowing?

While the House itself has some responsibility for extravagant spending, the primary responsibility is on the executive branch. That is where the Budget is made up. That is where the recommendations for appropriations originate. Each year the estimates of appropriations have been higher and higher. No effort has been made to eliminate waste and extravagance, even during the present emergency.

In 1933, the President of the United States, in a message to Congress, pointed to the urgent necessity for economy, and undertook, as a constitutional duty, to advise Congress as to the specific means for bringing it about. That message has long since been forgotten, but the sound principles of Government finance enunciated therein are even more true today than when uttered 8 years ago.

This message of the President is incorporated in the minority report on the bill. I hope it will inspire the President to assume the necessary leadership in the matter of economy so that some action along this line may be accomplished.

The same considerations which make an increase in taxes imperative also require that nonmilitary expenditures be cut to the bone.

The President's own Secretary of the Treasury advised the Ways and Means Committee that it should be possible to reduce such expenditures by a billion dollars annually. Other responsible persons have made even larger estimates of possible savings.

I am sure that the American people will gladly shoulder any necessary burden of taxation to maintain the credit of the Nation and finance the defense program, but certainly they are entitled to expect a similar sacrifice on the part of their Government through the reduction on nondefense spending and the elimination of unnecessary and wasteful expenditures of all kinds.

As we of the Republican minority have stated in our report on the bill:

> If the Government is going all out for national defense and all out for taxes upon the people, it is compelled both by necessity and by a regard for its obligations to the taxpayers of the country to also go all out for economy.

To supplement this statement of our position, I should say that the same system of priorities which now applies to national-defense production should likewise be applied to Government spending. In other words, national defense and the necessary civil functions of government should have first call on the taxpayers' dollars.

I have spent considerable time in the discussion of the general financial picture, because I believe it is more important than the details of the tax measure which is now before us.

The committee has presented a bill which is intended to bring the Federal revenues up to a point where they will cover 60 percent of the total expenditures of government, leaving 40 percent to be financed by additional borrowing.

In the last war, approximately one-third was raised by taxation and two-thirds by borrowing, but we must remember that our financial structure was on a much sounder basis at that time. Before we entered the World War, we had a national debt of only a little over $1,000,000,000. Now our debt is 50 times that amount, and our financial structure, which in reality is our first line of defense, has been seriously undermined by extravagant spending and borrowing.

Mr. SMITH of Ohio. Mr. Chairman, will the gentleman yield at that point?

Mr. TREADWAY. Certainly.

Mr. SMITH of Ohio. If I recollect, the formula was 66⅔ taxes and 33⅓ borrowing, as stated by the Secretary of the Treasury. The gentleman now states that it is 60–40.

Mr. TREADWAY. Since the estimate was made by the Secretary of the Treasury, to which informally the members of the Committee on Ways and Means and of the Finance Committee of the Senate agreed, the expenditures have been so much more extravagant, and the commitments of the Government have been to such a greater amount, that all ratio has gone out of the window. There is no such thing today as a fixed ratio between taxation and borrowing. The theory might have been practical at the time Mr. Morgenthau made his statement to us, but that has been all forgotten in the shuffle, exactly the same as the President's recommendation 8 years ago of strict economy has been forgotten. I suggest to the gentleman, if he has not already done so, that he read the President's 1933 economy message, which is included in the supplemental part of the minority report in connection with this bill. It is one of the forgotten friends of long ago. The same is true of this particular question that the gentleman is asking about.

Mr. SMITH of Ohio. In that case, that means that there is no real control over this Budget—no real control over expenditures.

Mr. TREADWAY. Yes. For instance, the gentleman probably listened to the President's message today. In that message the President said that expenditures have risen so tremendously that now he wants to set up a ceiling on prices. It is the same idea to a certain extent. The situation is out of all control, and it is being followed up by Members of Congress, friends of the administration, exactly as one signing on the dotted line, as the administration has had them do, on the basis of national defense and emergency. Those words are being abused more than any other words in the English language today. There is nothing like it in the way of exaggeration, in the way those words "emergency" and "defense" have been abused.

Mr. JENKINS of Ohio. Mr. Chairman, will the gentleman yield?

Mr. TREADWAY. With pleasure.

Mr. JENKINS of Ohio. When the Secretary of the Treasury made that statement that he thought this tax bill would produce a situation whereby the taxes raised would be 66⅔ of the expenses, he could not possibly have justified it at that time, for this reason: That in not one year in the history of the New Deal have they come that near to raising that amount of what they have expended, and it could not be expected. Just as the President said today, about additional expenditures, they will never match that 60–40, or anything like that, and when we come to getting exact information in these 1942 expenditures we will find that we will be spending about $100,000,000 a day, and taking in about $30,000,000.

Mr. TREADWAY. I would not want to accuse the Secretary of the Treasury of bad faith at the time he made that recommendation to the members of the committee. I think he was sincere in thinking that would be the amount that this bill ought to call for; but, as I have already said, it seems to me that we have no basis today for any proportion as between taxes and borrowing, because the extravagance of the Government has been so tremendous.

Mr. JENKINS of Ohio. That is what I had in mind. I did not mean to impart an improper motive to the Secretary, but I was merely trying to say that he had no justification in historical fact to say that they could do that, and we know that he had no justification in prophecy.

Mr. TREADWAY. I think the gentleman is correct.

Mr. GIFFORD. Mr. Chairman, will the gentleman yield?

Mr. TREADWAY. Yes.

Mr. GIFFORD. I think it was sincerely expressed today by the gentleman from Tennessee [Mr. COOPER] when he said that two-thirds should be met by taxation and one-third by borrowing. Now I have the figures here, $53,000,000,000 already recommended and appropriated.

Mr. TREADWAY. That is right along the line of the question just asked, which I answered.

Mr. GIFFORD. But I urge you, as a member of the minority, to see to it that that statement is not made again to the public.

Mr. TREADWAY. Well, it will be made again, because that is the theory on which this three and one-half billion dollars is raised; but it is not correct any more.

Mr. GIFFORD. I want you to see to it that the public is not fed that any more. There is no such thing as one-third and two-thirds. It will be more like 80 and 20.

Mr. TREADWAY. You will be lucky if you get out of it at 80 and 20. We do not know where we are going to bring up in this matter of expenditure, either through taxation or borrowing. The gentleman's grandchildren will never see this indebtedness liquidated.

Mr. GIFFORD. Oh, I think something will happen before they reach their majority.

Mr. TREADWAY. If the Government lives up to its agreement and pays off its bonds on which we are borrowing money, you will never see the Budget balanced for a long time.

Mr. GIFFORD. The gentleman does not think we can ever live up to such agreements, does he?

Mr. TREADWAY. I know the administration will not live up to them.

Mr. CRAWFORD. Mr. Chairman, will the gentleman yield?

Mr. TREADWAY. I yield.

Mr. CRAWFORD. Would it be unfair to make the observation at this point that there is no commitment whatsoever on the part of the administration, either the Treasury Department or the executive branch of the Government, that far above $22,000,000,000 will be called for in the forthcoming fiscal year and that the amount over and above the $22,000,000,000 must be added to the disequilibrium between the tax and the debt, which has been discussed here today?

[Here the gavel fell.]

Mr. TREADWAY. Mr. Chairman, I yield myself 10 additional minutes.

I doubt if I could answer the gentleman's complicated inquiry. Will you make it a little shorter, please?

Mr. CRAWFORD. Let me state it this way: The Government has indicated to us that an additional appropriation will be asked for during the coming fiscal year.

Mr. TREADWAY. I agree. A very large one.

Mr. CRAWFORD. That is one side of the proposition. So, then, whatever that is, insofar as it is expended, must be added to the $22,000,000,000 that has been considered?

Mr. TREADWAY. Yes. I have in mind the last $8,000,000,000 that was passed in the last few days.

Mr. CRAWFORD. That is correct.

Mr. TREADWAY. When the Congress, made up of representatives from the various walks of life of this country, a cross section of the American people, will vote $8,000,000,000 of the taxpayers' money in the short time we did here and not even go on record for it, it shows the prodigality of the present generation. Am I correct in that statement?

Mr. CRAWFORD. The gentleman certainly is correct.

Mr. TREADWAY. It is ridiculous that we should authorize the expenditure of $8,000,000,000 and not a man have the courage to say how he stood on that bill or whether we all agreed to it. It just takes your breath away. It makes a man almost afraid to go before the taxpayers of the country for fear he would be mobbed or blackjacked. If they were not real good citizens they would hit us over the head for doing such foolish things.

Now, Mr. Chairman, it is not my purpose to go into any extended explanation of the bill, for the details are set forth in the report. I commend that report to the Members of the House. It has been carefully prepared by the experts of the committee and as far as I am able to see, is accurate and correct and very explanatory of this very complicated bill that is before us.

I also want to take time at this part of my remarks to return the kind words that the chairman said about the minority. I think we are entitled to pat ourselves on the back just a little bit, because we have endeavored, as the chairman said, to go along with the committee in a perfectly nonpartisan manner, in order to accomplish a patriotic duty and aid them in their great responsibility in presenting to the American people what seems to us to be an equitable and fair tax bill, or as near that as we can get under the conditions under which we are doing business now.

Therefore I want to thank the chairman of the committee in behalf of myself and my colleagues for his kind words about the manner in which we have cooperated with him in the preparation of the bill over these 3 tedious months we have labored.

Mr. EBERHARTER. Mr. Chairman, will the gentleman yield?

Mr. TREADWAY. I yield.

Mr. EBERHARTER. On page 60 of the report, section 557, it says:

The special tax is based on the number of billboards maintained or controlled by the taxpayer during the tax year—

And then this is the part I want to call particular attention to:

and the rate is graduated according to the number of such billboards in each size classification.

I think perhaps that is an error, because, as I understand it, there is no graduation according to the number of billboards.

Mr. TREADWAY. I will say to the gentleman that that subject was inserted in the bill quite late in its preparation and perhaps was not given the attention that it should have been given at the time. I think I am not breaking any committee confidences in saying—with the approval of the chairman—that we have since revised the language as it appears in this bill, and it is one of three committee amendments that will be submitted to the House at the proper time.

Mr. EBERHARTER. But it was not the intention of the committee to graduate the tax according to the number of billboards?

Mr. KNUTSON. No; according to the size.

Mr. TREADWAY. Size was the controlling factor; but we did find we were taxing the small boards more than they received, and we found we were taxing boards that were patriotically donated by the owners to the use of the Government in advertising the sale of defense bonds, and that sort of thing. It seems to me very strongly that this would be an unfair tax, and I hope a further amendment will be offered at the proper time. The difficulty is that the boards are taxed by the year, whereas the time the use of the billboard is donated by the owners may be by the month or by the week. I will say, as far as I personally am concerned, that I do feel it is a fair form of tax, and I believe the owners of the boards will willingly and patriotically assume their share of taxation in the present emergency of the Government. There is no reason why, if this is a profitable business, it should not bear its fair burden of taxation.

Mr. REED of New York. Mr. Chairman, will the gentleman yield?

Mr. TREADWAY. I yield.

Mr. REED of New York. As a matter of fact, the amendment that will be offered seems to be fairly satisfactory to the billboard people of the country.

Mr. TREADWAY. I so infer.

Mr. REED of New York. It may not be entirely so, but it has been changed so they are very much less disturbed.

Mr. TREADWAY. I may say to the gentleman from New York that I am sure some plan will be worked out which will take cognizance of the free contribution of billboard-poster space for publicity purposes of the Government. I believe something will be worked out. In fact, I have asked Mr. Stam if he would undertake the matter of writing such an amendment.

Mr. REED of New York. But the proposed language is very much preferable to the language in the bill.

Mr. TREADWAY. Yes.

Mr. ROBSION of Kentucky. Mr. Chairman, will the gentleman yield?

Mr. TREADWAY. I yield.

Mr. ROBSION of Kentucky. I received any number of letters, and their complaint is one of discrimination. The billboard people complain that other people who sell advertising are not taxed in the same way. They say it is a gross discrimination. They ask why they should pay a tax when no tax is required of other forms of advertising.

Mr. TREADWAY. I may say to the gentleman that we included electric signs as well as billboards. If the gentleman can find anything we have left out, I would appreciate his calling it to our attention, because it might possibly mean more money.

Mr. ROBSION of Kentucky. But the proposed amendment eliminates the discrimination these billboard people complain of.

Mr. TREADWAY. I believe the language the gentleman complains of was in the original bill. As yet no amendment has been offered, but one has been agreed to in the Ways and Means Committee and will be offered as a committee amendment.

Mr. ROBSION of Kentucky. For instance, some complain that large newspapers carry many pages of advertising but are not affected by this bill.

Mr. TREADWAY. That is a different proposition entirely. I do not think it would be regarded as a discrimination because there is no distinct comparison.

I see the gentleman from New York [Mr. REED] on his feet. Does he want me to yield?

Mr. REED of New York. I thought that was what was going to be brought out. The only discrimination they are complaining about at the present time is that it does not take care of newspaper advertising.

Mr. GIFFORD. Mr. Chairman, will the gentleman permit me to make a suggestion there?

Mr. TREADWAY. Yes; I yield to my colleague from Massachusetts.

Mr. GIFFORD. We regard the billboards as a terrible nuisance in our State. They are prohibited in some. You have to see a billboard, you need not read a newspaper. You cannot escape a billboard up in front of you, or these electric signs which are notoriously bad. I suppose the committee thought they were in a class by themselves.

Mr. TREADWAY. The task of drafting a bill of the size of the pending measure has naturally been a difficult one. The committee has spent some 3 months in its preparation. About one-third of that time was required for the public hearings and the remainder for the actual drafting of the bill.

[Here the gavel fell.]

The CHAIRMAN. The time of the gentleman from Massachusetts has again expired.

Mr. TREADWAY. Mr. Chairman, how much time have I consumed?

The CHAIRMAN. The gentleman has consumed 30 minutes.

Mr. TREADWAY. Mr. Chairman, I yield myself 10 additional minutes.

Mr. WILLIAM T. PHEIFFER. Mr. Chairman, will the gentleman yield?

Mr. TREADWAY. I yield.

Mr. WILLIAM T. PHEIFFER. I hesitate to break the gentleman's train of thought in his prepared statement, and this may be unrelated to the present portion of the gentleman's statement, but I should like to have the gentleman explain to the House what consideration, if any, was given to the matter of photographic apparatus as carried on page 73 of the bill as related to the reproductive processes in the printing arts; that is, I have no quarrel at all with the tax which has been placed on photographic apparatus and materials in connection with photography as a hobby or an avocation, for that comes within a classification that I think can very well stand a tax.

Mr. TREADWAY. I think I have the gentleman's point if he will let me proceed. As I understand the gentleman, he refers to paragraph 4, on page 73.

Mr. WILLIAM T. PHEIFFER. That is correct.

Mr. TREADWAY. Considerable consideration was given to that paragraph based largely on the idea of distinguishing between amateur photography and professional photography. I think that is what the gentleman has in mind.

Mr. WILLIAM T. PHEIFFER. That is what I have in mind.

Mr. TREADWAY. We felt that photographers, such as those we have following us around the Capitol getting pictures for the papers, and that sort of thing, were entitled to some consideration contrary to the language in that paragraph, but we found further that the handling of the subject matter would bring such tremendous clerical difficulty in the Department of Internal Revenue that for the time being it was not put in the bill. I think that answers the gentleman's question. We had sympathy for the objective of the gentleman's ideas, but the difficulty was in getting language to cover it at this time. Also, it should be stated that this was one of the taxes proposed by Mr. Leon Henderson on the ground that photographic equipment was needed for defense, and hence recognition should be given to the use to which the products to be taxed was put.

Mr. WILLIAM T. PHEIFFER. I would like to explain to the gentleman that that subject is of great interest to my district because of the fact a great many of the printing arts, such as rotogravure, and so forth, are situated within my congressional district in New York City—in fact, that is the center of the printing trade.

Mr. TREADWAY. I realize the gentleman is interested in that. I have heard it described in other language than "photographic center."

Mr. HANCOCK. Will the gentleman yield?

Mr. TREADWAY. I yield to the gentleman from New York.

Mr. HANCOCK. In connection with the question raised by the gentleman from New York, may I inquire what motivated the committee in including the items enumerated on page 74, "business and store machines," including typewriters, comptometers, and so forth. They are just as much tools of the business as the hammer and saw are to the carpenter.

Mr. TREADWAY. Yes; I agree. I may say to the gentleman that I realize many of those machines are made in his district and bear the label "Syracuse," and other places.

Mr. HANCOCK. They are very excellent products.

Mr. TREADWAY. They are the very best. Business could not be transacted without those machines today. Even hotel keepers have to have them.

Mr. HANCOCK. They cannot be called luxuries or hobbies.

Mr. TREADWAY. That is not what we are endeavoring to tax by this bill. This is another one of the taxes which were suggested by Mr. Leon Henderson. The only thing that may be wrong about that item, I may say to the gentleman, is the fact we may have omitted some kind of machines or some kind of business methods. If we have, and if the gentleman will tell the majority side, they will include it. I think the gentleman will have difficulty in getting any taken out.

Mr. HANCOCK. Is it the policy of the committee to tax machines that are necessary to do business?

Mr. TREADWAY. It is the policy of Mr. Henderson, which a majority of the committee has agreed with. Mr. Henderson contends that they contain articles in their manufacture and require skilled labor which the Government is anxious to secure for defense production at the present time.

Mr. CRAWFORD. Will the gentleman yield?

Mr. TREADWAY. I yield to the gentleman from Michigan.

Mr. CRAWFORD. Referring to page 83 of the bill, the last three lines, I wish to inquire about this language:

> Every person who maintains for use or permits the use of, on any place or premises occupied by him, a coin-operated amusement or gaming device—

Now, referring to the language "coin-operated amusement or gaming device," does that particular language include coin-operated moving-picture machines?

Mr. TREADWAY. Well, the person who would have to pass on that inquiry, I assume, if this language is adopted, would be the Bureau of Internal Revenue and its administrative branch. I doubt if it is a question that we as legislators ought to answer.

Mr. COOPER. Will the gentleman yield?

Mr. TREADWAY. I yield to the gentleman from Tennessee.

Mr. COOPER. I think the specific answer to the question asked by the gentleman from Michigan is "no." If you will examine the definition appearing on page 84, I think it will clarify the situation.

Mr. TREADWAY. Let me call the gentleman's attention to page 60 of the report:

> SEC. 555. Coin-operated amusement and gaming devices: This section imposes an occupational tax of $25 per annum per machine on each person who maintains for use, or permits the use of, on premises occupied by him, a coin-operated amusement or gaming device.

Then, quoting again:

> Coin-operated amusement or gaming devices are, briefly, machines which fall within the general classification colloquially referred to as pinball machines and slot machines. A separate liability is incurred with respect to each machine, but if one such machine is replaced by another, such other machine will not be considered an additional machine.

There is also a definition on page 84 of the bill:

> So-called slot machines which operate by means of insertion of a coin, token, or similar object and which, by application of the element of chance, may deliver, or entitle the person playing or operating the machine to receive cash, premiums, merchandise, or tokens.

In other words, it is the gambling outfit we are trying to hit. If we have not covered it completely, tell the committee and we will endeavor to provide language for it. I may say to the gentleman further that the language of these various items that are called to my attention at the moment have been very carefully gone over by the Drafting Service, Mr. Beaman and Mr. O'Brien. Of course, those gentlemen are only human like the rest of us. They may have made mistakes or there may be omissions. It is the omissions that we are particularly anxious to find at the present time in order to add anything that may bring in revenue to the Government. Am I stating the case correctly for the Committee?

Mr. CRAWFORD. I agree with the gentleman. I am very much disappointed that this language does not embrace these moving-picture machines, because if you go around these watering places, bathing beaches, and such as that, there is most always present a room which is more or less filled with these dirty moving-picture coin slot machines.

Mr. TREADWAY. This particular paragraph would only apply where the person putting the money in the slot gets something in return, either money, a prize, or something else, as a gambling proposition. I am sorry to find that my colleague evidently knows from personal investigation where that sort of moving picture may be found. I myself am ignorant of it.

Mr. CRAWFORD. We go to these places and see hundreds of thousands of American youths participating in the operation of those machines. I believe it is very well that we take note and look at the thing ourselves.

Mr. TREADWAY. I would suggest that the gentleman prepare some language in the way of an amendment and submit it to the majority in the next day or two.

Mr. COOPER. Mr. Chairman, will the gentleman yield?

Mr. TREADWAY. I yield to the gentleman from Tennessee.

Mr. COOPER. I invite the attention of the gentleman from Michigan to this situation. In order to cover the type of machines that he evidently has in mind, you would also get into the question of including a great many others such as machines playing phonograph records, a field the committee thought probably should not be invaded at this time, at least.

Mr. CRAWFORD. I think the committee acted very wisely in exempting vending machines, for instance, where candy, chewing gum, peanuts, and so on, are sold, but my question is as to the others.

[Here the gavel fell.]

Mr. TREADWAY. Mr. Chairman, I yield myself 5 additional minutes.

Although I have been on the Ways and Means Committee for nearly 25 years, I have never participated in the drafting of any tax bill where there was a finer spirit of cooperation among all the Members or less partisanship displayed. Not a single vote, so far as I recall, was cast along party lines. This, I believe, is worth noting.

Also, it should be stated that the committee drafted its own bill without being unduly influenced from any source. Our colleagues on the majority side displayed rare indifference to administration pressure, even though it came from no less a source than the White House. They are to be commended for adhering to their honest convictions and for placing the good of the country above party loyalty.

The committee in its deliberations was guided by a desire to see to it that the increased burden was fairly distributed among the different classes of Federal taxation. Approximately 38 percent of the increase will come from corporations, 33 percent from the individual income tax, 25 percent from excise taxes, and 4 percent from estate and gift taxes.

Finding few new sources of taxation available or practicable, the committee necessarily had to rely upon the increase of existing taxes to obtain most of the required revenue.

It first made an effort to obtain as much of the total as possible from corporation income and excess-profits taxes. The committee adopted the Treasury's suggestion for imposing a surtax of 5 percent on the first $25,000 of net income and 6 percent on the balance.

By imposing a surtax instead of increasing the existing normal corporation taxes by equivalent amounts, the Government is able to tax in the hands of corporations interest from Government bonds which is exempt from normal income tax but is subject to surtax.

The practical effect of the change is to increase the income-tax rate on larger corporations from 24 to 30 percent. The smaller corporations, which are now subject to rates of from 14.85 to 18.7 percent, will have their tax increased by 5 percent in each bracket.

The committee overwhelmingly rejected the Treasury's excess-profits-tax proposal, which would have done away with the present alternative methods of computing the excess-profits credit, based on either average earnings or invested capital, and have required all corporations to pay excess-profits tax on the basis of invested capital alone.

By adopting the proposal of the Joint Committee on Taxation to retain the present alternative methods of computing the credit, but to require the excess-profits tax to be computed before computing and deducting the corporate income tax, the committee realized considerably more revenue from this source than was proposed by the Treasury. However, the burden will be more equitably distributed.

In its recommendations in connection with the individual income tax, the Treasury opposed any broadening of the base through lowered exemptions. Its opposition to such a change was based on the

small amount of revenue to be derived from taxpayers thus made subject to income tax and because of the fact that the present exemptions already reach single persons earning more than $15.77 per week and married men without dependents earning more than $38.46 per week. It was also pointed out that those in the low-income brackets are subject to a heavy burden of indirect and hidden taxes.

There is much to be said on both sides of the question of lowering the income-tax exemptions. Unquestionably, if the people were made more tax conscious through the levying of a direct tax upon their incomes, they would exert more influence in restraining Government spending. Also, they would acquire a sense of responsibility for the support of Government.

I am a thorough believer in the desirability of tax consciousness, but we must keep in mind that when we lower the exemptions we get very little additional revenue from the new taxpayers who are brought in. It becomes necessary to greatly increase the already swollen staff of the Bureau of Internal Revenue in order to audit the returns, and this cost is practically as much as the amount of revenue received. Most of the increased revenue as a result of lowering the exemptions comes from the existing taxpayers, who have their taxable income increased in the highest bracket by the amount of the reduction in the exemption.

Many feel that despite these facts it would be worth while to lower the exemptions because of the general good which would result. Every man and woman ought to contribute to the support of Government. They are now doing so through hidden taxes, but it would be better if it were done in the open through a direct tax.

Studies made by the National Resources Committee indicate that 82 percent of the families and single individuals in the country have incomes of less than $2,000 annually, and that this group receives 51 percent of the total consumer income. The same study shows that nearly 98 percent of the people have incomes of less than $5,000, embracing 80 percent of the total consumer income. These facts will doubtless be borne in mind by the drafters of the next tax bill.

The chairman of the Ways and Means Committee, in his statement before the Rules Committee, indicated that another tax bill might be expected next year which would add to the already heavy burden of the people. When that bill is written, we will be "scraping the bottom of the barrel," so to speak, and as he pointed out, it may become necessary to resort to a general sales levy such as was reported by the Ways and Means Committee in 1932 and rejected by the House. In other words, we will have to get the revenue wherever we can find it, which means that we may also have to levy high enough taxes on small incomes to make a lowering of the exemptions worth while.

The Treasury Department, while opposing the lowering of the income-tax base, recommended that the first dollar of income in excess of the present exemptions ($800 for single persons, $2,000 for married persons) be taxed at the initial rate of 16½ percent. The present initial rate, including the defense tax, is 4.4 percent. The committee felt that the Treasury proposal was too drastic and too sharp an increase. The bill therefore provides for a more moderate rate. In addition to the 4-percent normal tax, it imposes a 5-percent surtax on the first dollar of income in excess of the personal exemptions, which with the defense tax, makes a total initial rate of 9.9 percent.

The following table shows the tax on various-sized incomes under the present law, the Treasury proposal, and the pending bill:

Single person

Net income	Tax		
	Existing law	Treasury proposal	Bill
$900	$0.44	$12.54	$5.94
$1,000	4.40	28.60	15.40
$2,000	44.00	189.20	110.00
$3,000	83.60	356.40	211.20
$4,000	123.20	550.00	338.80
$5,000	171.60	748.00	473.00
$10,000	686.40	1,958.00	1,469.60

Married person, no dependents

Net income	Tax		
	Existing law	Treasury proposal	Bill
$2,500	$11.00	$71.50	$38.50
$3,000	30.80	151.80	85.80
$4,000	70.40	312.40	180.40
$5,000	110.00	506.00	308.00
$10,000	528.00	1,628.00	1,166.00

Perhaps the most controversial feature of the bill is that which requires husbands and wives living together to file a joint income-tax return. It has been bitterly criticized, both on constitutional grounds and as being an encouragement to divorce and immoral relationships. Since this item will come up for separate discussion on Monday, I shall not take the time today to go into the various aspects of the problem.

In considering the estate and gift taxes, the committee felt that in view of the fact that the existing rates were quite substantial, running up to 70 percent in the case of the estate tax and three-fourths of that amount in the case of the gift tax, it would not be proper to impose as great an additional burden on estates and gifts as recommended by the Treasury. Consequently, we retained the existing exemptions, but increased the rates somewhat in the lower and middle brackets.

The committee deferred the consideration of excise taxes until it had exhausted the possibilities of additional revenue from income and profits taxes, based on ability to pay. The excise levies fall upon the great masses of the people, and rest most heavily on those with the least taxpaying ability. The committee, of course, had in mind that the people were already heavily taxed through indirect and hidden levies of this character. The Treasury had originally recommended an increase of nearly $1,200,000,000 in excise taxes, but under the committee bill the amount to be obtained from this source has been reduced to $880,000,000.

Among the proposed increases in excise taxes as recommended by the Treasury which the committee refused to adopt were those on tobacco, beer, and gasoline. It was felt that these articles were already heavily taxed. The committee also refused to adopt the Treasury's suggestion for the reenactment of a tax on bank checks. A similar tax was tried a few years ago but was repealed after a brief period.

Among the existing excise taxes increased by the bill is that on automobiles, on which the rate is now 3½ percent. Mr. Leon Henderson, who is in charge of the price-control program, recommended that the tax on automobiles be increased to 20 or 25 percent in order to prevent the probable inflation of prices due to the demand for new cars exceeding the reduced supply. The committee did not feel justified in imposing so great a tax and simply adopted the Treasury proposal for doubling the present rate to a total of 7 percent.

Mr. Henderson also suggested the imposition of taxes on a number of other items, the production of which competed for raw materials and labor needed in defense. Some such taxes were imposed and others rejected. Among those included were taxes on air-conditioning equipment, rubber goods, commercial washing machines, optical goods, electric signs, electrical appliances, and business and store machines. The committee refused to adopt proposed taxes on oil burners, metal furniture, paints and varnishes, and electrical and mechanical measuring devices.

I personally opposed the Henderson proposals, feeling that so far as competition with defense is concerned the matter can be adequately handled through the system of priorities which has been set up.

While the committee tentatively adopted a tax on cutlery, it was eliminated before the bill was reported. In my opinion the proposed tax was utterly without justification.

In the case of soft drinks the Treasury recommended a rate of 1 cent per bottle. The committee, however, took into consideration the fact that such a tax might cripple the industry since its sales depend upon a 5-cent price. Instead of adopting the Treasury proposal, the committee fixed a rate of one-sixth of a cent per bottle, which of course is equivalent to 4 cents per case. So far as I am informed the bottling industry will not be able to absorb this tax due to its small margin of profit. I feel that the tax should be eliminated, or at least further reduced.

The committee also tentatively adopted a proposed tax on candy and chewing gum. This was subsequently eliminated from the bill, and I was glad to have been instrumental in this action. Candy is a food, and is recognized as such by the Army. It competes with such things as iced cookies, cakes, pastry, and so forth, which would not be taxed. Also it is to a large extent bought by children, as is chewing gum.

One of the taxes I was pleased to see included in the bill is that on billboards. They clutter up the landscape all over the country and constitute a traffic hazard in many instances. The committee found that the provision as drafted would work a hardship in many cases, and a committee amendment has been agreed to which will remedy this situation to some extent by proposing a lower tax on smaller billboards. I hope that provision will also be made so that no tax will be imposed where the owner of the billboard gives the Government free use of his facilities, as many have done in connection with the Treasury's defense-bond campaign and other Government programs.

There are one or two things done by the bill which may be overlooked unless special mention is made of them. I refer, first, to the fact that the bill makes permanent the so-called defense-tax increases made by the first Revenue Act of 1940, which were originally imposed for a 5-year period. Also, I wish to call attention to the fact that the bill makes permanent the so-called nuisance taxes which were originally imposed in 1932 for a 2-year period, and which have been extended five different times, the last extension being to 1945. Apparently we are going to need this additional revenue for some time to come, and the committee felt there was no use troubling Congress to pass periodic extension legislation.

In closing let me say to those who find fault with the bill that no perfect tax bill was ever enacted. Nor could any tax bill be drafted which would please everyone. There are many features of the bill which I do not like, but the paramount need of additional revenue compels me to vote for it whether I like it or not.

Let me say, too, that this bill may be only the beginning of our ultimate tax burden. The President has already said that we may expect annual tax bills during the emergency, which of course is nothing new since we have been having them right along these past few years. Not only must we meet the staggering costs of defense, but some day we must begin to pay off the huge debt which has accumulated, and which will continue to mount for some time.

Let no one expect anything but high taxes for an indefinite period. Our experience in the past teaches us that once we have built up our expenditures to an extraordinarily high level as a result of an emergency, we never get back to the level that existed before. This has been demonstrated all through our history as a Nation.

The President once said that "We have a rendezvous with destiny." Let me say that we also have a rendezvous with the tax collector.

Mr. DOUGHTON. Mr. Chairman, I yield 30 minutes to the gentleman from Indiana [Mr. BOEHNE].

Mr. BOEHNE. Mr. Chairman, it shall be my purpose to discuss what is probably the most controversial section of the pending tax bill. I refer to section 111, which is found on pages 13 to 22 of H. R. 5417. Before doing that, however, I cannot refrain from making a general statement regarding the fiscal policy of our Government, and the seemingly lackadaisical attitude of the Congress to do anything about it.

As you so well know, it is not my habit to appear very often on the floor of the House and make speeches in support of or in opposition to pending legislation. However, in almost every instance I have given warnings, and I find now that they were very feeble, that unless we in the legislative branch of the Government acted very decisively in the curtailment of unnecessary expenditures of Government, we would find ourselves in a very disagreeable position and the country in a very dangerous position. I believe that we have passed the point of safety, and unless barricades are erected, we will go headlong into a catastrophe from which there will be no emerging, and we will eventually arrive at the abyss where the credit structure will tumble of its own weight. To be brutally frank, and looking at matters rather cold-bloodedly, I am more greatly disturbed about the credit structure of this Government than I am of the possibility of the United States getting into a shooting war.

The responsibility for this condition rests solely with the Congress of the United States. We have passed appropriation bills calling for greater and greater expenditures of money, which we did not have, and we saw no prospect of securing. We were asked to write new tax bills, and every time we did that, new requests for additional appropriations were made to us, and we very blindly followed the course of least resistance.

I know it is a comparatively simple matter for men to rise in their seats to rail and rant against the administration, including the President of the United States, and it is axiomatic that the party in power is responsible for the prosecution of Government. At the same time, however, we must not lose sight of the fact that we, sitting here as representatives of the people, have the right to control the purse strings of the Nation. But on innumerable occasions we have neglected to do that which our better judgment told us to do.

The answer to the impasse in which we now find ourselves cannot be found in the Ways and Means Committee. It cannot necessarily be found in the Committee on Appropriations, but it can be found in the attitude, which we as individuals can and must take if we want to leave to our children a government as sound as it was given to us.

There is no objection on the part of the people of the United States to sacrifice to the limit when money is spent for the defense of this country, but in making those sacrifices we must so conduct ourselves that when the battle is won we will still have not an empty shell but a solid foundation upon which to build for the future. This means that in times of emergency nondefense expenditures must be curtailed to the bone. In doing this inequities will of necessity arise, but Members of Congress must take the bit in their mouths, and lead the way. Many there will be who will not be returned to the halls of Congress because a militant minority, which believes in meting out undeserved punishment, refuses to see the handwriting on the wall. That is the chance that all of us are going to have to take, but it is eminently a chance worth while. It is a lot more important that this country remain a republic, which all of the financial earthquakes cannot destroy, than it is for any single one of us to be reelected and for the country to be ruined for our children's children.

I am convinced that a very necessary surgical operation is needed now to save the patient, and I believe that we have brains enough and nerve enough to go ahead and not force the next generation to make an autopsy over the remains. This may mean a tremendous slash in W. P. A. funds. It may mean a tremendous curtailment of funds to the Department of Agriculture, which today is using considerably over $1,000,000,000 annually. It may mean either the militarization or removal of all Civilian Conservation camps. It may mean a cut in the Department of the Interior. It may mean a slash of expenditures for reclamation and irrigation. It may mean a cessation of additional power development for the time being. It may mean getting along in the best way that we can in every department of government. It may mean the abolition of pet commissions and bureaus.

This committee has been working assiduously for over 3 months, giving all of its time to working out difficult problems of taxation. It has tried to present to the Congress a tax bill that is as equitable as 25 men could prepare. This bill, as has been told you previously, contemplates an additional burden of over three and one-half billion dollars annually on the taxpayers of this country. Do we not owe it to the taxpayers, yes, to all of the people whom we represent, to make all of the savings that we possibly can, so that when the next generation comes along it will not be necessary for them to hold up their hands in utter despair, repudiate every bond of the United States Government with the cry: "We did not make this debt; let's start from scratch"? Therefore, my plea to you, gentlemen, is that some decisive action be taken in the near future so as to prevent the shame and disgrace that will come to us in later years.

Now, I come to the matter that I want to discuss in some detail. Section 111 of H. R. 5417 requires husbands and wives living together to file a joint return if their aggregate gross income is $2,000 or over, and to compute the tax on the aggregate income. The liability for the tax may be joint and several, or at the election of either spouse may be apportioned between them. The apportionment is to be made according to the ratio of the taxes which each spouse would have been required to pay had they filed separate returns. That, in substance, is section 111, although it takes about eight pages to put it all in legal phraseology.

I recognize that there are honest differences of opinion on this subject. There are some who will go so far as to say that it is unfair, and there are others who will attempt to dissect that section on

purely legal and constitutional grounds. I have no thought of presenting a legal brief on the constitutional aspects of this particular legislation. I feel certain that one more versed in the law would be able to make a case from every possible viewpoint. I merely want to point out some of the reasons why the committee felt that a mandatory joint return was eminently fair and just.

The present law provides that a husband and wife may file a joint return, listing all income of both husband and wife on one return, and take the allowable exemption as provided by law. However, the present law also provides that a husband and wife may file single returns, and each spouse take any portion of the $2,000 exemption on his or her return, provided the total exemption for both spouses does not exceed $2,000. From this it can be seen that if the husband has a greater income than the wife, he would naturally take the greater share of the exemption or vice versa. Under section 111, this is changed and we provide that husband and wife, both having separate incomes, must file a joint return and, of course, are given the single $2,000 exemption.

I am sure that the example cited in the report will bear repetition at this point. Under the present law, if the entire income is earned by the husband, the family is required to pay a greater tax than if the wife had contributed to the family income. If the husband and wife had an income of $10,000, but it was all earned by the husband, the tax under the present law with the proposed rates in this bill will amount to $1,166. On the other hand, if $5,000 of the income was contributed by the wife, the total tax to be paid by the family under the present law by filing separate returns with the proposed rates will be $880—or $440 by each spouse. These two families in this example have the same income, yet one will pay $286 more than the other. Since in most cases the family income is contributed by the husband, the present law operates unjustly against the greater majority of families in the country. Certainly, one does not have to stretch the imagination to realize that the man whose wife has a separate income is in a better position than the man whose wife has no separate income.

Probably on no individual item in any tax bill, at least not since I have been a member of this committee beginning in 1933, have Members of Congress, and more particularly members of the Ways and Means Committee, been flooded with letters and telegrams in an attempt to set aside what seemed to the committee to be eminently just. From the viewpoint of the mail received it would almost appear as though the country was unanimous in its opposition to this feature of the pending bill. Upon investigation it was quite interesting to find out from the record just whose ox was being gored. The Joint Committee on Internal Revenue Taxation prepared for those of us who were interested in this phase of taxation some very interesting information and took as a basis the complete returns for the calendar year of 1938. I would direct your attention to page 16 of the printed report of the committee, under the heading "Table 2," where you will find some enlightening information in regard to income-tax returns filed by married couples, living together, in 1938. Of course, every Member of Congress will immediately glance at his own State to see what the record shows for that State. Naturally I turned to the State of Indiana, and there I found that there were filed in 1938 a total of 61,317 returns, of which 59,335 represented joint returns of husband and wife. That means that had this mandatory provision been a part of the law, only 1,982 families would have been affected, or roughly 3.2 percent of the total number of returns. The figures for the country as a whole show that with returns totaling slightly in excess of 3,000,000, already 2,866,000 represent joint returns, while those filing separate returns because of separate income represent only 5.77 percent of the total.

I am sure that many of you have received in letter form every conceivable argument against this proposal. Some of those that I have received may certainly be classed as senseless and ridiculous. May I call your attention to a few of these arguments taken from correspondence? One man writes:

> I have been married nearly 29 years and have no children. My wife and I have enjoyed nearly equal incomes. If the above law goes into effect, it will pay us to get a divorce and live in open defiance of the accepted customs of our country. We do not wish to take this step, but have no family on which it would react. Help us to avoid such a breaking down of social standards.

A woman writes:

> At present I am able to use that money to provide necessities to a good many unfortunates and to help members of my family who need help. This I would not be able to do under a joint-income-tax system. I should also be forced to cut down my domestic staff, inside and outside, and thus add to the already admittedly great number of still unemployed. Some of these people will, no doubt, easily find work; some may not. My contributions to charity, the Red Cross, and funds to fight disease will be cut. In ———, Fla., where I live, the children whose parents cannot buy it will no longer have fresh milk daily.

Another man writes a very short letter and says:

> I object most strenuously to your plan to force husband and wife to make joint tax returns. This can only encourage wealthy people to practice immorality and get divorces.

Then here is a letter from a very prominent trade association:

> We are most emphatically of the opinion, however, that the situation does not in any way justify an attack upon one of the most fundamental of our institutions, the family, by a discriminatory tax calculated to discourage matrimony, under the guise of raising revenue to defend our way of life. It would be bad enough to single out any particular group of citizens and subject them to an extra heavy tax, but when the group selected is one which hitherto has been protected and encouraged by the teachings of religion and the dictates of sound statesmanship, then, indeed, it becomes a sacrifice to mammon and Moloch

Parenthetically, may I interpose at this point how wonderful it is that religion has at last pulled up some men by their own bootstraps, that even trade associations have called in outside help. Would that all business activities would be motivated by actions emanating from the same high plane of morality.

Here is another interesting argument in which the natural state of man is so forcefully portrayed in good English. This man writes:

> With respect to the persons not yet married and who are expecting to become married, I know of many instances where young girls and young men work in offices and have been engaged to be married for several years, who finally are married and continue with their employment. If this bill should become a law it will make them pay a higher income tax than they would have to pay if they remain single. This additional burden, added to the necessity of making an ordinary living, might be a factor in causing them to decide to remain unmarried. Naturally, this would decrease the birth rate of the Nation. In other cases where the incomes are larger and where the increased taxes would mean a considerable inroad in the joint incomes, couples who would be contemplating marriage might decide that the financial cost is too great and this might lead to a state of association which would not be wholesome.

And then, the climax of propaganda was reached when men, whose principal position in life, by their own choice, is to save souls and for the building up of the church in general, came forth with their arguments why mandatory joint returns should not be imposed upon the American people. They attempted to impress upon us, as others have done, that this would encourage divorce, celibacy, a mercenary attitude toward marriage, and in general a lowering of the birth rate. Certainly, I would be the last to speak disrespectfully of any gentleman of the cloth. Every one of them has a right to express himself on public questions, but when he does, he must likewise expect a reply in kind. I believe that I have a right to make such reply because I also received a letter from an organization within my own church protesting against this provision. To all of them, I say simply this, if a husband and wife seek sanctuary in the divorce courts of our country because of the imposition of any tax, then marriage vows meant nothing to them in the first instance. All of the emotional clap-trap that has appeared in the newspapers about the sanctity of marriage, religion, and morals is just so much drivel. Unfortunately, not one of the commentators, at least those whom I have read, has bothered to point out that compulsory joint returns have been required under British income-tax law for a long, long time, and no one has argued that this requirement has seriously increased the British divorce rate or impaired British morals. To repeat the argument that compulsory joint returns would penalize marriage and discourage home building is to my mind sheer nonsense. Any prospective marriage which is broken up because of the possibility of higher income taxes is probably not worth very much. As I wrote to a good friend of mine the other day, who voiced a vigorous protest against this provision, fearing that it was an attack on the family, I believe just the reverse to be true. For many years, we

considered the family as a unit of society. Many churches have been built on that principle, and among which is my own church. Then, at the turn of the century, it seemed as though family ties were beginning to loosen. Now, the Congress is declaring once more that the family shall be a unit in our social structure. I believe that that is a very salutary thing, even though it reverts somewhat to the horse-and-buggy days.

The real reason why churchmen seem to be opposed to this provision is that it might have the result of cutting down the flow of gifts to charitable and benevolent institutions, which include churches. If this is the only real reason for the objection, then I must admit it is not a very strong one, because in times of emergency our Government needs the help of every one of its citizens even when financial sacrifices are necessary. I believe that to be good gospel.

To conclude, it was the opinion of your committee that a division of income between husband and wife, as a tax saving device, has no equitable basis. It results in an unequal distribution of the tax burden as between families similarly situated. This proposal has real merit.

First. It prevents the income tax law from operating unfairly with respect to a family where all the income is received by one spouse as compared with a family where the income is received by both.

Second. It removes the discrimination under the present law against earned income in favor of investment income.

Third. It treats a family living in one part of the United States in the same manner as a family living in another part of the United States, thus removing the discrimination at present existing in favor of those residing in community-property States.

Fourth. It does not invade the rights of a married woman. It treats her exactly in the same manner as her husband for Federal tax purposes. It merely regards the family as the taxable unit instead of the individuals, who make it up.

Fifth. The inherent property rights of the separate members of the taxable unit are in no way invaded.

Sixth. It prevents the income tax from being avoided through interspouse transfers. Property acquired by one spouse may be transferred to the other spouse mainly for the purpose of reducing the tax liability of the one, who would otherwise have the greater income.

Seventh. It will not result in any increase in the divorce rate in the United States. That seems almost impossible to do. A compulsory joint return in Great Britain has been required for more than 20 years, and their divorce rate is not as high as that of the United States.

Eighth. The mandatory joint return will not result in an increase in the tax of any family whose net income does not exceed $4,000.

Finally, this proposal levies the tax according to ability to pay. The taxable capacity is made to depend upon the income that accrued to the family and not upon the way that income happens to be owned by individual members of the family.

It must be remembered by those who cannot and will not be convinced of the legitimacy and the fairness of this proposal that it would mean striking from the estimated revenues of this bill a total of $320,000,000. That in itself is a sizable sum of money, and when that money can be secured through the equitable means proposed it seems to me that it would be the height of folly to strike it and not offer anything in its place. I am sure that the country can depend upon the sound judgment of this Congress in that this branch of our National Assembly will show a determination to do what the committee in its judgment thought was the proper thing to do.

Mr. TREADWAY. Mr. Chairman, I yield 20 minutes to the gentleman from New York [Mr. REED].

Mr. WILLIAM T. PHEIFFER. Mr. Chairman, will the gentleman yield to me just a moment so that I may ask the gentleman from Indiana a question that is in my mind that I should like to clarify now?

Mr. REED of New York. I yield to the gentleman from New York.

Mr. WILLIAM T. PHEIFFER. While I am not in accord with the gentleman's argument in favor of this provision, yet my question is directed to the mechanics of filing these returns. I see that subsection (b) of paragraph 4 of section 3 provides that a single return shall be filed. I am wondering if the committee took into consideration the practicability or the feasibility of allowing individual returns to be filed by husbands and wives as previously and considering them as a unit, so that there would not be a disclosure of the income of each spouse to the other in cases where such disclosure might play havoc with the financial affairs of the spouse who had a trust income, let us say, and the other spouse was a wastrel or a spendthrift and was irresponsible.

Mr. BOEHNE. I am sure the gentleman will pardon my statement, but I shall make the same reply to the gentleman and to the House that I made in the Committee on Ways and Means to that particular question. To me it seems impossible that any spouse would dare to refuse to divulge to the wife or husband what his particular income might be. To my way of thinking, that would be a mighty peculiar union. That is the only answer I can give.

Mr. WILLIAM T. PHEIFFER. I may say to the gentleman that I have an exact case that I would be glad to explain to him later.

Mr. REED of New York. Mr. Chairman, first of all I wish to pay my respects to the distinguished chairman of the Committee on Ways and Means. I have marveled for weeks at his patience and his good nature. I commend him for being eminently fair to every Member of the minority. I know of no occasion where I have sat with a committee where there was such harmony and such close cooperation over difficult problems as has existed during the session which has been devoted to the formulation of this tax bill.

Mr. Chairman, it may be pertinent to the introduction of an unpleasant subject to make an inquiry as to why the Ways and Means Committee is here today asking the House of Representatives to approve a tax bill which is estimated to yield the largest amount of revenue ever demanded at any one time by any government in the history of the world. I might say, at this time, that the majority report refers to the amount carried in this bill as "unprecedented," and I agree with them that it is unprecedented.

I recall that many of us who have voted against the large appropriations of the New Deal were much embarrassed in recent political campaigns because we could not "point with pride" to the "bacon" brought home in the way of Federal expenditures in our districts. That super-propaganda agency, the Office of Government Reports, very obligingly tabulated the Federal expenditures in each State and county, and tons of franked mail were sent out to convince the voters of the generosity of those who voted for large appropriations. The New Deal campaign orators made the welkin ring with promises to vote for larger appropriations and more gifts from the New Deal gods.

Now, that every day is pay day for the taxpayers, the "bacon" emits an unpleasant stench, and it is far from appetizing at this time as political bait for votes.

We are here today because the 13 tax bills enacted so far by the New Deal have failed to keep up with the spending spree.

We are here today to consider the fourteenth New Deal tax bill and make way for the fifteenth New Deal tax bill next winter.

We will be here again and again because you have consistently refused to stop wasting the taxpayers' money and are increasing rather than decreasing nondefense expenditures.

We are here today to present a so-called defense tax bill to provide for nondefense spending. This bill should be called by its real name—the boondoggle tax bill. It is, in truth, a bill under which the American people are to begin to pay for all those so-called New Deal gifts which poured so bountifully into the States, cities, and counties before the defense program started. We all remember when the New Deal was counting telegraph poles, raking leaves, building rustic furniture in the woods, and conducting the great grasshopper census. In those lush days, a Cabinet officer stated publicly that the American people were "too damn dumb" to understand President Roosevelt's financial policies. The money was flowing out of the Treasury in the form of gifts to the people, so why worry—such was the official defense of boondoggling.

But with this tax bill comes the awakening. The $25,000,000,000 squandered so shamefully in boondoggles during the years 1933–40 would have more than paid for all the national-defense contracts signed to date.

This bill will need to be in operation for 2 full years to pay for the lend-lease gifts to foreign nations. Ever since the emergency defense program was launched in June 1940, every penny of our defense expenditures simply has been added to the national debt. Our current Federal

income, before these new taxes, barely covers the regular civil expenditures.

Here are some of the typical boondoggles for 1936, with the amount spent for each:

Translating old Spanish records	$2,535
Census of historic buildings	448,000
Rehabilitation of old Indian villages	1,283,000
Excavating prehistoric mounds	153,407
Landscaping river banks	3,343,403
Alaska salmon census	35,000
Census of tax delinquency	1,607,529
Rainfall studies	11,915
Rural sanitation stations	5,000,000
Gypsy-moth control	870,850
Sealing abandoned mines	1,519,750

These, however, are only a few representative items. They recall how frantically the new dealers combed the country in search of new ways to spend public funds. At each election, the table of gifts and grants for every county was sent by the millions of copies to the newspapers, radio stations, and New Deal political rangers. "Tell the people how much we are giving them," was the command from Washington. "Show them what these rich gifts mean to the community and how they come free from a social-minded Government."

But now, when additional taxes are necessary to preserve the credit of the Nation, an unblushing attempt is made to tell the people that the sacrifices are for national defense. The administration dares not tell the people the truth—that these taxes are really to pay for the "free ride" on the political merry-go-round which President Roosevelt's new-order magicians gave us in the years 1933-40.

We would all do well to sit down and read again the grave admonition uttered by President Roosevelt in his historic economy message of March 10, 1933, in which he warned that a deficit of $5,000,000,000 in 1931-33 was a threat to America's solvency. Said President Roosevelt on that occasion:

> Too often in recent history liberal governments have been wrecked on the rocks of loose fiscal policy.

Since that time Mr. Roosevelt has added $28,000,000,000 to our national debt, and his own estimates show that another $11,000,000,000 will be added to that debt during the current fiscal year ending June 30, 1942. By that time the national debt, even after taking into account the new taxes from this bill, will total $59,861,000,000.

Mr. Chairman, I have endeavored to explain the reason we are here with the fourteenth New Deal tax bill.

I shall now present, in the form of questions and answers, a few facts pertaining to the same subject and also questions and answers relating to the provisions of the pending bill.

PUBLIC DEBT—FEDERAL

Question. What was the Federal debt on March 4, 1933, when the New Deal took office?

Answer. $20,937,000,000.

Question. What is the debt today?

Answer. As of July 15, 1941, it was $49,221,000,000, not counting the $6,373,000,000 of contingent liabilities because of the borrowings of Government corporations.

Question. When will the authorized borrowing limit of $65,000,000,000 be reached?

Answer. Indications are that it may be reached by July 1, 1942.

Question. Before the United States defense requirements are fully met, what is the debt likely to be?

Answer. At least $100,000,000,000, and possibly much more.

Question. What is the annual interest charge on the present national debt?

Answer. $1,225,000,000 in the present fiscal year.

Question. To what extent had New Deal expenditures been increased before the present emergency period began?

Answer. Increased from a level of $3,800,000,000 in 1933 to nearly $9,000,000,000 in 1939.

Question. What is the result of these pre-emergency expenditures of the New Deal?

Answer. The emergency defense expenditures have to be superimposed upon tremendous basic cost; furthermore, the New Deal's extravagant spending and borrowing have undermined the Nation's fiscal security.

Question. Has the New Deal made any effort to curtail nonmilitary expenditures?

Answer. None whatever; they have been increased.

Question. What do these nonmilitary expenditures amount to annually at the present time?

Answer. Approximately $7,000,000,000.

Question. What did the total civil and military expenditures amount to in 1938?

Answer. Together they were $7,239,000,000, or only $200,000,000 greater than the New Deal is now spending for civil purposes alone.

Question. Are citizens and business concerns now being urged and required to make sacrifices for defense?

Answer. Yes.

Question. Are the New Deal spending agencies required to curtail their wasteful extravagances?

Answer. No; they are permitted to continue their extravagances and waste unabated without the slightest regard to the plight of the taxpayers.

Question. How much did Secretary Morgenthau estimate that nondefense expenditures could be reduced without impairing the essential services of government?

Answer. To the extent of $1,000,000,000.

Question. Has the President taken any action to reduce expenditures pursuant to the recommendation of his Secretary of the Treasury?

Answer. No. He has not; instead he has recommended increases.

Question. How many tax bills have been enacted by the New Deal during the last 8 years?

Answer. Thirteen different tax bills.

Question. How much money has been raised under these tax bills since 1933?

Answer. $40,000,000,000. By the end of this fiscal year ending June 30, 1942, the total will have been raised to $50,300,000,000.

Question. How much money has been borrowed by the New Deal since July 1, 1933?

Answer. $27,443,000,000, but by the end of the present fiscal year the amount will be over $38,000,000,000, making allowances for revenue under the pending bill.

Question. What have been the total expenditures of the New Deal since July 1, 1933?

Answer. $67,518,000,000 through June 30, 1941, but again by the end of the present fiscal year the total expenditures will have grown to $93,551,000,000.

Question. Has there at any time during the past 8 years been an approach to a balanced Budget?

Answer. No; and none has been attempted despite promises of the administration to do so.

Question. What is the estimated deficit for 1942?

Answer. $12,767,000,000, except that this amount will be reduced by the revenue collected under the pending bill.

Question. How much of the $3,529,000,000, to be raised by the present bill, will be collected during the current fiscal year?

Answer. Only $1,900,000,000.

Question. Why is this?

Answer. Because only 60 percent of the collections from 1941 incomes, covering the first two installments, will be received before the close of the current fiscal year ending June 30, 1942. Furthermore, since excise taxes cannot be made retroactive, months of this revenue will be lost. None of the increased revenue from the estate tax will be collected during the current year, since estates have 18 months in which to pay the tax.

Question. What are the estimated expenditures for the fiscal year commencing July 1, 1941?

Answer. $22,169,000,000, of which $15,500,000,000 will go for defense purposes and aid to Britain, and the balance, or $6,600,000,000 for civil purposes.

Question. Will the enactment of the $3,500,000,000 tax bill, increasing present taxes by nearly 40 percent, meet the fiscal problem?

Answer. No. The Nation will still be faced with a deficit of staggering proportions, as shown by the majority report, which estimates the deficit in the current fiscal year at $10,900,000,000.

Question. What grave situation now confronts the people?

Answer. Either an everincreasing tax load or the calamity of a devastating inflation resulting from debt.

Question. Why is it so difficult to finance the defense program?

Answer. The New Deal has each year for 8 years piled debt upon debt until the Nation's credit has been weakened; it also has virtually exhausted the Government's taxing power in the futile attempt to keep pace with ever mounting expenditures.

Question. From what source is it now planned to raise the $3,529,000,000?

Answer:

Individual income tax	$1,152,000,000
Corporation income and excess-profit taxes	1,322,900,000
Capital stock tax	22,300,000
Estate and gift taxes	151,900,000
Manufacturers' and retailers' excise taxes and miscellaneous excise taxes	880,100,000
Total	3,529,200,000

Question. What is to be the rate of spending under the New Deal program for the fiscal year 1942?

Answer. The plan is to spend at least $60,700,000 every day.

INDIVIDUAL INCOME TAX

Question. What are the proposed exemptions?

Answer. Same as under present law:

(a) Single persons, $800.

(b) Married persons, $2,000.

(c) Dependents, $400.

(d) Where single person gets $2,000 exemption as head of a family by reason of having dependents, the $400 allowance for the first dependent shall be disallowed.

Question. Has normal rate been changed?

Answer. No; present normal rate of 4 percent continued.

Question. Is deduction for earned income (as distinguished from unearned income, such as interest, dividends, etc.) continued?

Answer. Yes; in computing normal tax only, 10 percent of the earned income up to $14,000 is allowed.

First $3,000 is presumed to be earned in all cases, without necessity of proof.

Question. What change is made in the surtax on individual income?

Answer. The surtax begins at a rate of 5 percent on the first dollar of income in excess

of the personal exemption and credit for dependents.

(Under present law there is an additional exemption of $4,000 in computing surtax, but this does not obtain in proposed law.)

Question. How do the proposed surtax rates and cumulative surtax compare with those under existing law?

Answer. They are as follows:

Surtax net income classes	Surtax rates		Cumulative surtax on higher amount shown in bracket	
	Present law	Proposed law	Present law	Proposed law
	Pct.	*Pct.*		
$0,000 to $2,000	------	5	---------	$100
$2,000 to $4,000	------	8	---------	260
$4,000 to $6,000	4	11	$80	480
$6,000 to $8,000	6	15	200	780
$8,000 to $10,000	8	19	360	1,160
$10,000 to $12,000	10	22	560	1,600
$12,000 to $14,000	12	25	800	2,100
$14,000 to $16,000	15	28	1,100	2,660
$16,000 to $18,000	18	31	1,460	3,280
$18,000 to $20,000	21	33	1,880	3,940
$20,000 to $22,000	24	36	2,360	4,660
$22,000 to $26,000	27	39	3,440	6,220
$26,000 to $32,000	30	42	5,240	8,740
$32,000 to $38,000	33	45	7,220	11,440
$38,000 to $44,000	36	48	9,380	14,320
$44,000 to $50,000	40	50	11,780	17,320
$50,000 to $60,000	44	53	16,180	22,620
$60,000 to $70,000	47	55	20,880	28,120
$70,000 to $80,000	50	57	25,880	33,820
$80,000 to $90,000	53	59	31,180	39,720
$90,000 to $100,000	56	61	36,780	45,820
$100,000 to $150,000	58	62	65,780	76,820
$150,000 to $200,000	60	63	95,780	108,320
$200,000 to $250,000	62	64	126,780	140,320
$250,000 to $300,000	64	66	158,780	173,320
$300,000 to $400,000	66	68	224,780	241,320
$400,000 to $500,000	68	70	292,780	311,320
$500,000 to $750,000	70	71	467,780	488,820
$750,000 to $1,000,000	72	72	647,780	668,820
$1,000,000 to $2,000,000	73	73	1,377,780	1,398,820
$2,000,000 to $5,000,000	74	74	3,597,780	3,618,820
Over $5,000,000	75	75	---------	---------

Question. Does the new bill propose joint return by husband and wife?

Answer. Yes; each to pay their proportionate share of the tax.

Question. How will this change the tax liability of husband and wife?

Answer. Joint returns by husband and wife will increase their tax liability.

Illustration as follows:

	Combined tax at proposed rates	
	If husband and wife are taxed separately	If total income is included in single joint return
(a) Where husband earns $3,000 and wife $1,800	$256.08	$282.48
(b) Where husband earns $10,000 and wife $2,000	1,509.20	1,663.20
(c) Where husband earns $10,000 and wife has investment income of $10,000	2,882.00	4,356.00

Question. Does the tax bill retain the additional defense tax of 10 percent of tax liability under the first Revenue Act of 1940?

Answer. Yes. After computing tax on new basis, taxpayer will add 10 percent to amount due. Moreover, this defense tax is made permanent. Under existing law it was to obtain only until 1945.

CORPORATION INCOME TAX

Question. Does the proposed $3,529,000,000 tax bill retain the present corporation normal tax and defense tax?

Answer. Yes, but it also imposes a new surtax. The existing normal tax rates are as follows:

Income $25,000 or less: First $5,000, 13.5 percent plus 1.35 percent defense tax, total 14.85 percent. Next $15,000, 15 percent plus 1.5 percent defense tax, total 16.5 percent. Next $5,000, 17 percent plus 1.7 percent defense tax, total 18.7 percent. Income more than $25,000, 22.1 percent plus 1.9 percent defense tax, total 24 percent.

Question. How is the tax imposed in case of larger corporations (those with net income above $25,000)?

Answer. At a flat rate on the entire amount of net income.

Question. How is tax adjusted to avoid injustice where corporation has an income slightly in excess of $25,000?

Answer. The law contains a so-called "notch" to smooth out the difference in rates.

SURTAX ON CORPORATION INCOMES

Question. What surtax rates are imposed on corporation incomes?

Answer. Income up to $25,000, 5 percent. Income over $25,000, 6 percent.

Question. Why is a surtax imposed on corporation incomes instead of merely increasing the normal corporation tax?

Answer. To reach income from partially tax-exempt securities, which income is subject to surtax but not to normal tax.

CAPITAL STOCK TAX

Question. Has the capital stock tax on corporations been increased?

Answer. Yes. Tax increased from $1.10 per $1,000 of declared value to $1.25.

Question. How is value on capital stock fixed?

Answer. Corporations fix own declared value on capital stock, at rate specified, and must pay so-called declared value excess-profits tax on earnings in excess of 10 percent of such declared value.

Question. Does the capital stock tax have to be paid whether there are any earnings or not?

Answer. Yes.

Question. Why is a capital-stock tax imposed?

Answer. The capital-stock tax and the declared-value excess-profits tax are linked together because neither would work satisfactorily independently.

WITHHOLDING TAX ON NONRESIDENT ALIENS

Question. Are taxes paid by nonresident aliens on interest, rents, dividends, royalties, and so forth, paid to them?

Answer. Yes. This tax is collected at the source.

Question. Has the rate been increased under the proposed bill?

Answer. Yes. The withholding tax on nonresident alien corporations and individuals from 16½ to 27½ percent.

Question. Will not the increase cause retaliation, say between United States and Canada, to the disadvantage of the United States?

Answer. It will not, because prior to this proposed increase Canada had notified the State Department of its intention to disregard the existing treaty arrangement with the United States.

ALTERNATIVE PLAN OF COMPUTING EXCESS-PROFITS TAX

Question. Under proposed tax bill, do corporations have the choice of computing their excess-profits credit either on the basis of average earnings or percentage of return on invested capital?

Answer. Yes. The Treasury and the President insisted that only the invested-capital formula be used. The committee, however, voted to retain the alternative method of computing the excess-profits credit.

Question. What is the formula under average-earnings plan?

Answer. Continue to allow credit on basis of 95 percent of average earnings in base period 1936–39, inclusive, but without deducting corporate taxes paid during base period. One year of losses may be counted as zero in computing the average earnings.

Question. What is the proposed invested-capital formula?

Answer. Continue present 8-percent allowance on invested capital where total invested capital does not exceed $5,000,000 but reduce it to 7 percent on that portion of the invested capital in excess of $5,000,000.

Question. What is the proposed rate schedule?

Answer. Increases rates of excess-profits tax by 10 percentage points in each bracket, as follows:

Excess profits	Present	Proposed
	Percent	*Percent*
Up to $20,000	25	35
Next $30,000	30	40
Next $50,000	35	45
Next $150,000	40	50
Next $250,000	45	55
All over $500,000	50	60

Question. Is there a further tax imposed on those corporations that use the invested-capital method of computing their excess-profits credit?

Answer. Yes. A special 10-percent excess-profits tax on corporations using the invested-capital method of computing their excess-profits credit.

Question. What is the method of computing corporation-income and excess-profits taxes under existing law?

Answer. Under existing law, a corporation first computes its corporation income tax, and then its excess-profits tax, taking as a deduction in computing the excess-profits tax the amount of corporation income tax found to be due.

Question. What is the method under the proposed bill for computing corporate income and excess-profits taxes?

Answer. Under the proposed bill, the corporation will be required to compute its excess-profits tax before computing its corporation income tax; then it will deduct the amount of the excess-profits tax in computing its income tax.

Question. Why this change in method?

Answer. In this way, the excess-profits tax applies to the full amount of the excess profits, without diminution on account of the amount of income tax otherwise due.

Question. How can this be explained hypothetically?

Answer. Let us assume the following case:

(1) Invested capital, $1,000,000.

(2) Borrowed capital, $400,000.

(3) Base-period income:

1936	$20,000
1937	40,000
1938 (loss)	10,000
1939	80,000

(4) Current income (1941), $120,000.

In computing the excess-profits tax, we start with the corporation's current income, which we have assumed to be $120,000. We now want to find what portion of this earning is to be regarded as excess profits. The bill reenacts the two alternative yardsticks now provided in existing law for determining excess profits. The corporation is allowed to choose whichever one gives it the greatest exemption from excess-profits tax.

The first is the so-called invested capital method, under which the corporation is allowed to make a return of 8 percent on the first $5,000,000 of invested capital, and 7 percent on the balance, before being subject to excess-profits tax. Invested capital includes money and property paid in for stock, including earnings "plowed back" into the

business. However, only 50 percent of borrowed capital may be included.

We have assumed that the corporation has $1,000,000 of so-called equity capital, and $400,000 of borrowed capital. Counting only 50 percent of the latter, we have a total invested capital for excess-profits-tax purposes of $1,200,000. To get the excess-profits credit, we simply take 8 percent of this amount, which gives us $96,000. This is the amount of the exemption under the invested-capital method.

The other alternative method of computing the excess-profits credit is the so-called average-earnings method, under which a corporation is allowed to make an amount equal to 95 percent of its average earnings in the base period 1936–39, inclusive, before being subject to excess-profits tax. In computing the average base-period earnings, the corporation is allowed to count not more than 1 loss year as zero. We have assumed that the corporation had base-period earnings for 1936 to 1939 as follows: 1936, $20,000; 1937, $40,000; 1938, −$10,000 (loss); and 1939, $80,000. Counting the year 1938 as zero, we have a total income for the 4 years of $140,000, which we divide by 4 to get the average. This gives us a figure of $35,000. We then take 95 percent of this amount, which gives us $33,250, which is the excess-profits credit based on average earnings.

Since the credit computed under the invested-capital method is larger ($96,000), the corporation will naturally adopt this method of computing it.

Now, we are ready to compute the excess-profits tax. We start with the current income of $120,000. From this we deduct the excess-profits credit of $96,000, plus the specific credit of $5,000 which is given to all corporations, or a total of $101,000, leaving $19,000 as excess profits.

On the first $20,000 of excess profits, the tax rate is 35 percent. Thus the tax would be $6,650, computed as follows:

Excess profits	$19,000
Tax rate 35 percent	35
Tax	$6,650

A special excess-profits tax is imposed on corporations using the invested-capital method of computing their excess-profits credit. It is aimed at taxing at a lower rate that portion of the increased income over the base period which escapes the regular excess-profits tax by reason of being less than the excess-profits credit. The tax is 10 percent of the amount by which the excess-profits net income, if it had been computed by use of the average-earnings credit, exceeds the amount of excess-profits net income computed by use of the invested capital credit. If the corporation had used the average-earnings credit ($33,250), to which would be added the specific credit of $5,000, its excess-profits net income would have been $120,000 minus $38,250, or $81,750. We have already seen that its excess-profits net income under the invested-capital credit is $19,000. The difference between these two figures is $62,750, which is the amount subject to the special 10-percent tax. The amount of tax would be $6,275.

Adding this to the regular excess-profits tax, we have a total excess-profits levy of $12,925, as follows:

Regular excess-profits tax	$6,650
Special excess-profits tax	6,275
Total excess-profits tax	12,925

There is a qualification that the total tax, thus computed, shall not exceed the tax if the average earnings credit had been used. Hence it is necessary to compute the tax under that method. We have seen that the excess-profits net income, with the use of the average earnings credit, would have been $81,750. Since the tax on this amount would be $14,287.50, which is more than the tax as above computed, the limitation would not apply in this case.

Now we are ready to compute the corporation income tax. Again we start with the current income of $120,000. From this we subtract the amount of the excess-profits taxes ($12,925), which leaves a balance subject to income tax of $107,075.

The regular corporation income tax is at the rate of 24 percent, and is computed as follows:

$$\$107,075 \times 0.24 = \$25,698$$

Thus the normal corporation tax is $25,698. The surtax is 5 percent of the first $25,000 and 6 percent of the balance.

The total surtax on $107,075 would thus be $6,174.50.

Total corporation income tax would therefore be:

Normal tax	$25,698.00
Surtax	6,174.50
Total	31,872.50

Add the total excess-profits taxes ($12,925), and we have a total tax (income and excess profits) amounting to $44,797.50, as follows:

Income tax	$31,872.50
Excess-profits taxes	12,525.00
Total	44,797.50

The corporation would have a balance after taxes as follows:

Net income	$120,000.00
Total taxes	44,797.50
Balance	75,202.50

ESTATE TAX AND GIFT TAX

Question. Have the exemptions been changed?

Answer. No. Estate-tax exemption continued, viz: $40,000 plus $40,000 of insurance to any named beneficiaries. Gift tax: $40,000 during donor's lifetime; first $4,000 of gifts made to each different person in each different year not counted against exemption.

Question. Does proposed tax bill change the estate-tax rates?

Answer. Increases rates of estate tax in lower and middle brackets, retaining present 70 percent maximum. Makes gift-tax rates equal to three-fourths of estate-tax rates, as at present.

Question. How do the proposed estate-tax rates compare with those rates in existing law?

Answer. The schedules of rates under existing law and the bill are as follows:

Net estate after specific exemption	Existing law		Proposed law	
	Bracket rate (percent)	Cumulative tax on higher amount	Bracket rate (percent)	Cumulative tax on higher amount
$0 to $5,000	2	$100	3	$150
$5,000 to $10,000	2	200	7	500
$10,000 to $20,000	4	600	10	1,500
$20,000 to $30,000	6	1,200	13	2,800
$30,000 to $40,000	8	2,000	16	4,400
$40,000 to $50,000	10	3,000	20	6,400
$50,000 to $60,000	12	4,200	23	8,700
$60,000 to $100,000	12–14	9,600	25	18,700
$100,000 to $250,000	17–20	36,600	27	59,200
$250,000 to $500,000	20–23	89,600	29	131,700
$500,000 to $750,000	23–26	151,600	32	211,700
$750,000 to $1,000,000	26–29	222,600	34	296,700
$1,000,000 to $1,250,000	32	302,600	36	386,700
$1,250,000 to $1,500,000	32	382,600	38	481,700
$1,500,000 to $2,000,000	35	557,600	41	686,700
$2,000,000 to $2,500,000	38	747,600	45	911,700
$2,500,000 to $3,000,000	41	952,600	48	1,151,700
$3,000,000 to $3,500,000	44	1,172,600	51	1,406,700
$3,500,000 to $4,000,000	47	1,407,600	54	1,676,700
$4,000,000 to $5,000,000	50–53	1,922,600	58	2,256,700
$5,000,000 to $6,000,000	56	2,482,600	61	2,866,700
$6,000,000 to $7,000,000	59	3,072,600	64	3,506,700
$7,000,000 to $8,000,000	61	3,682,600	66	4,166,700
$8,000,000 to $9,000,000	63	4,312,600	69	4,856,700
$9,000,000 to $10,000,000	65	4,962,600	69	5,546,700
$10,000,000 to $20,000,000	67	11,662,600	70	12,546,700
$20,000,000 to $50,000,000	69	32,362,600	70	33,546,700
Over $50,000,000	70		70	

Question. How does the estate-tax burden under the bill compare with that under existing law?

Answer. The answer to this is shown by the following table:

Net estate before exemption	Amount of tax [1]		Effective rates		Increase in tax	
	Existing law	Proposed law	Existing law	Proposed law	Amount	Percent
$50,000	$220	$550	0.4	1.1	$330	150.0
$60,000	660	1,650	1.1	2.8	990	150.0
$80,000	2,200	4,840	2.8	6.1	2,640	120.0
$100,000	4,620	9,570	4.6	9.6	4,950	107.1
$200,000	21,060	38,270	10.8	19.1	16,610	76.7
$400,000	63,780	99,530	15.9	24.9	35,750	56.1
$600,000	112,340	164,590	18.7	27.4	52,250	46.5
$800,000	167,340	234,330	20.9	29.3	66,990	40.0
$1,000,000	228,780	308,090	22.9	30.8	79,310	34.7
$2,000,000	588,000	727,370	29.4	36.3	139,370	23.7
$4,000,000	1,499,640	1,792,570	37.5	44.8	292,930	19.5
$6,000,000	2,655,140	3,075,450	44.3	51.3	420,310	15.8
$10,000,000	5,323,500	5,964,250	53.2	59.6	640,750	12.0
$20,000,000	12,532,700	13,503,890	62.7	67.5	971,190	7.7
$40,000,000	27,391,820	28,583,890	68.5	71.4	1,192,070	4.4
$60,000,000	42,361,380	43,663,890	70.6	72.8	1,302,510	3.1
$100,000,000	72,521,380	73,823,890	72.5	73.8	1,302,510	1.8

[1] Includes 10-percent defense tax.

COMPUTATION OF PERSONAL-INCOME TAX

Question. What is the procedure for arriving at the personal-income tax of a man and wife with one dependent, net income of $3,000, all earned?

Answer. Following is an example of the computation:

Computation of normal tax

Net income	$3,000
Less earned-income credit (10 percent of earned income)	300
Total	2,700
Less personal exemption ($2,000) plus credit for dependent ($400)	2,400
Normal tax income	300
Normal tax (4 percent)	.04
Total normal tax	$12

Computation of surtax

Net income	$3,000
Less personal exemption ($2,000) and credit for dependent ($400)	2,400
Surtax income	600
Surtax (5 percent of first $2,000)	.05
Total surtax	$30

Total tax

Normal tax	$12.00
Surtax	30.00
Total	42.00
Plus 10 percent (defense tax)	4.20
Total tax	46.20

Question. Does this bill require more of those in the lower-income group to pay an income tax?

Answer. Yes. More than a million such persons will be added to the list of income taxpayers.

Question. What provision of the bill requires this new group to pay income tax?

Answer. The provision that the 10 percent earned income credit may not be deducted for surtax purposes. Thus a married person, with no dependents, having a net income of $2,222.22 would not pay a normal tax but he would pay a 5 percent surtax on $222.22.

Question. How does this change affect the single person earning, say, $1,600 a year?

Answer. It bears heavily because his exemption is only $800. A single person with a net income of $1,600 a year will pay a surtax of 5 percent on $800, or a surtax of $40, and to this must be added his normal tax of $25.60 and the defense tax of $6.56, making his total tax $72.16.

Question. What other tax is imposed on the low-income group?

Answer. The $5 use tax on automobiles.

Question. How many of those with an income of only $1,000 will this automobile-use tax reach?

Answer. More than 5,760,000 persons with incomes of only $1,000.

Question. What deterred the committee from lowering the personal exemptions below $2,000 for married persons and $800 for single persons?

Answer. The previous lowering of exemptions failed to raise sufficient revenue to warrant the added expense of collection and the administrative difficulties involved. Moreover, it increased the tax load of those already heavily taxed.

Question. What other taxes does the low-income group have to pay under this and previous acts?

Answer. A long list of excise taxes.

EXCISE TAXES

Question. What existing excise taxes are increased by this bill?

Answer. The following items, already taxed, are each subjected to an increased excise tax as follows:

Distilled spirits, from $3 per proof gallon to $4.

Wines:

Still wines: Up to 14 percent alcohol, from 6 cents per gallon to 8 cents. From 14 to 21 percent alcohol, from 18 cents per gallon to 24 cents. From 21 to 24 percent alcohol, from 30 cents per gallon to 50 cents. (Wines over 24 percent alcohol are taxed as distilled spirits).

Sparkling wines, including champagne, from 3 cents per half pint to 4 cents.

Artificially carbonated wines, from 1½ cents per half pint to 2¼ cents.

Beer, no increase. Existing rate of $6 per barrel of 31 gallons continued without change.

Passenger automobiles, from 3½ percent of the manufacturer's sales price to 7 percent. Passenger trailers, which are now exempt, are to be taxed at the same rate.

Motorcycles, from 3½ percent of the manufacturer's sales price to 7 percent.

Trucks, from 2½ percent of manufacturer's sales price to 5 percent.

Truck trailers, which are now exempt, are to be taxed at the same rate. Busses, which are now taxable as passenger automobiles, are to be taxed as trucks.

Tractors, of the kind chiefly used for highway transportation, from 2½ percent to 5 percent. Farm tractors are not subject to the tax.

Automotive parts and accessories, from 2½ percent of the manufacturer's sales price to 5 percent.

Tires, from 2½ cents per pound, on sales by the manufacturer, to 5 cents.

Tubes, from 4½ cents per pound, on sales by the manufacturer, to 9 cents.

Mechanical refrigerators, from 5½ percent of the manufacturer's sales price to 10 percent.

Radio sets and parts, from 5½ percent of the manufacturer's sales price to 10 percent.

Playing cards, from 11 cents per pack, on sales by the manufacturer, to 13 cents.

Toilet preparations (perfumes, toilet waters, cosmetics, hair dressings, toilet powders, and similar articles, but not including toilet soaps, toothpaste, mouth washes, and so forth), present tax of 10 percent on sales by manufacturer is changed to a 10 percent retail sales tax.

Admissions, exemption reduced from 20 to 9 cents. Rate of tax continues to be 1 cent for each 10 cents or fraction of the admission charge, to be paid by the customer. Present exemptions in favor of religious, charitable, and educational entertainments, agricultural fairs, and so forth, repealed. Aside from admission charges of 9 cents or less, only exemption will be in favor of service men in uniform.

Telephone, telegraph, radio, and cable messages, revise present tax basis, so that tax will be as follows (payable by the person paying for the service): On messages for which the charge is 25 cents or more but not more than 50 cents, 5 cents; for each additional 50 cents or fraction thereof, 5 cents additional.

Leased wires, present tax of 5 percent of amount paid is continued, but basis is revised to include certain services not now subject to tax, such as news or stock quotation tickers, teletypewriters, burglar-alarm systems, and similar services.

Club dues, exemption reduced from $25 to $10; present 11-percent tax rate continued. In addition to initiation and membership fees, tax is extended to cover certain privilege fees, including any charges for privileges or facilities for any period not less than 7 days. This change is made in order to prevent avoidance of the tax by making separate assessments for many facilities and privileges which would otherwise be included in the annual dues.

Lease of safety-deposit boxes, rate increased from 11 percent of amount paid to 20 percent, payable by the lessee.

Question. What items, not now taxed, are to be taxed under the excise provisions of this bill?

Answer. These new items are taxed as follows:

Jewelry, clocks, and watches, including articles made of or ornamented, mounted, or fitted with precious metals, 10 percent of the retail-sales price, payable by the purchaser. The only articles exempted are surgical instruments, frames or mountings for eyeglasses, and religious articles. It is impossible to give a detailed list of articles covered by this tax, as it will be up to the Bureau of Internal Revenue to issue regulations on this subject. However, in addition to including the general class of articles commonly known as jewelry, clocks, and watches, it will undoubtedly extend to silver-plated wear, sterling-silver pieces, articles ornamented with gold or silver such as fountain pens, and so forth.

Photographic apparatus, 10 percent of manufacturer's sales price.

Sporting goods, 10 percent of manufacturer's sales price. The tax will be imposed on a specific list of items, as set forth in the bill rather than on sporting goods as a class. This is done to avoid confusion. The tax will not extend to articles of wearing apparel, shoes, or toys, which in some cases were taxed under the sporting-goods tax imposed by the Revenue Act of 1932 and subsequently repealed.

Matches, 2 cents per 1,000 matches, whether of paper or wood, on sales by the manufacturer.

Trunks, suitcases, and other luggage, 10 percent on manufacturer's sales price.

Phonographs and records, 10 percent on manufacturer's sales price.

Musical instruments, 10 percent on manufacturer's sales price.

Electrical appliances, such as fans, electric stoves, toasters, etc., but not including washing machines, 10 percent on manufacturer's sales price.

Business machines, such as typewriters, adding machines, cash registers, etc., 10 percent on manufacturer's sales price. The rental of such business machines not manufactured for sale is also taxed at the 10 percent rate.

Optical equipment, other than eyeglasses, 10 percent on manufacturer's sales price.

Rubber products, other than rubber footwear, surgical supplies, and articles otherwise taxed by the bill, 10 percent on manufacturer's sales price.

Electric signs, 10 percent on manufacturer's sales price.

Commercial washing machines, 10 percent on manufacturer's sales price.

Furs, including articles of which fur is the component material of chief value, 10 percent on retailer's sales price. Just what articles will be covered by this tax will be a matter for Treasury regulation. Where fur is used for trimming purposes, it will have to be decided whether the fur is the component material of chief value. There is no certainty as to whether the tax will be applicable to repairs in which fur is used. This also will be a matter for Treasury regulation.

Soft drinks (not including pure fruit juices):

Bottled soft drinks:

(1) If bottle contains not more than 33 ounces: If bottled to retail at not more than 10 cents per bottle, one-sixth of 1 cent per bottle, on sale by bottler. If bottled to retail at more than 10 cents but not more than 20 cents per bottle, one-third of 1 cent per bottle. If bottled to retail at more than 20 cents per bottle, one-half of 1 cent per bottle.

(2) If bottle contains more than 33 ounces, a tax of 6 percent of the price for which sold by the bottler.

Finished or fountain sirups of the kind used in mixing soft drinks, 6 cents per gallon on

sales or use by manufacturer. (Not applicable if used in bottled soft drinks.)

Carbonic acid gas suitable for use in soft drinks, sold to any person who sells soft drinks otherwise than in bottles, 4 cents per pound.

Telephone bills, 5 percent of total bill (excluding messages taxed as toll calls), to be paid by customer.

Passenger transportation (by railroad, airplane, bus, or boat), 5 percent of amount charged, to be paid by customer. No tax on charges of 35 cents or less. Commutation tickets exempted.

Bowling alleys and billiard and pool tables, $15 annually per alley or table, to be paid by operator. Tax does not apply to alleys and tables in private homes.

Cabarets, 5 percent of total bill, to be paid by customer. (The reason a higher tax is not imposed is because a large part of the charge on which the tax is imposed represents the purchase of food rather than entertainment.)

Use of automobiles, $5 each per year, to be paid by the owner.

Use of boats and yachts, $5 to $200 annually, depending on size.

Coin-operated amusement and gaming devices, $25 each per year, to be paid by the proprietor.

Billboards: 1 to 100 square feet, $1; 100 to 200 square feet, $2; 200 to 300 square feet, $3; 300 to 400 square feet, $4; 400 to 600 square feet, $8; above 600 square feet, $11.

Radio broadcasting: 5 to 15 percent tax on net time sales, with $100,000 exemption; exceeding $100,000 but not exceeding $500,000, 5 percent; exceeding $500,000 but not exceeding $1,000,000, 10 percent; in excess of $1,000,000, 15 percent.

Mr. Chairman, may I conclude my part in this tax symposium with a quotation from the pen of Tom Paine, taken from Prospects on the Rubicon:

War involves in its progress such a train of unforeseen and unsupposed circumstances that no human wisdom can calculate the end. It has but one thing certain, and that is to increase taxes.

Mr. TREADWAY. Mr. Chairman, I yield 15 minutes to the gentleman from Michigan [Mr. CRAWFORD].

MORE GUNS AND MORE BUTTER—A VERY DANGEROUS PHILOSOPHY

Mr. CRAWFORD. Mr. Chairman, some of my colleagues have pointed out most ably some glaring illustrations of waste in our national-defense program. This waste has been primarily in the form of excessive costs in the construction of certain public works. But much more wasteful and much more dangerous for the national-defense program as a whole has been the philosophy that the new dealers have glibly accepted in carrying on the defense program. This has been the philosophy summed up in the phrase "more guns and more butter."

The new dealers have presented to the American public an allegedly painless national-defense program. They have asserted that we could have adequate national defense in this country without making any sacrifices at all. Consumers would not have to restrict their consumption of goods and services; labor would not have to give up any of its social gains; business would not have to be dislocated by the defense program. Such talk was exceedingly pleasant to hear, but it will prove to be exceedingly disastrous to the good of the country in the long run, for by the failure of the New Deal to realize the need for sacrifices in almost every form at the earliest possible date, production in our national-defense program will be retarded immeasurably for a long time to come.

What is this guns-and-butter philosophy? It is based essentially upon the premise that the capacity of American industry to produce is almost limitless; that production of goods and services for national defense can be increased many, many fold while at the same time the production of goods and services for the consuming public can be expanded in the same manner. Thus the new dealers pointed out it would not be necessary to restrict any of the normal industrial and business programs of this country—these could continue the same as ever and that the defense program could be superimposed upon them. In fact, as a consequence of the defense program, the new dealers contended the productivity of this country for ordinary consumers' goods would be greatly increased and that the expenditures of the Federal Government for national defense would increase the purchasing power of the consuming public and industry would be able to dispose of goods and services at the same rate that purchasing power increased. The claim was made it would be unnecessary to apply higher taxes to the American public in order to finance the defense program, and that the present taxes, applied to the increased national income, would yield sufficient return to pay for the cost of defense. This is essentially the same pump-priming theory that John Maynard Keynes proposed for the United States to lift itself by its own bootstraps from the depression. It will prove to be no more effective now than when first proposed, but for different reasons. I wish to trace for you the development of this idea in the thought of our outstanding new dealers. One of the first new dealers to give expression to this view was Mr. Jerome Frank, then a member of the Securities and Exchange Commission and now a judge of the circuit court of appeals. In a speech made before the Army Industrial College in April 1940 Mr. Frank declared:

Until the stage of full employment of resources is reached, we should give preference to those methods of war finance which induce a net increase in production, not merely a shift in production. In that period, as I see it, we should not, therefore, seek to cover the cost of armament by new taxes or forced loans but mainly by borrowing, primarily from the banks and from the idle reserves of individuals. Under such conditions, it is even conceivable that we might finance part of the cost of armaments by issuing additional currency without producing more than a moderate rise in the level of prices—a most important consideration, as I shall presently indicate.

The situation is quite different, however, once the level of practically full productive capacity is reached. Then armament expenditure should be financial largely through taxes or through loans placed outside of the banking system, if we are to avoid a rise in the price level. A rise in prices in such a situation obviously would not lead to a further increase in production. (In Time of War Prepare for Peace, Jerome N. Frank. Address before Army Industrial College, April 8, 1940.)

President Roosevelt himself has long adhered to this school of thought. At his press conference on May 28, 1940, which was held just 2 days after his famous fireside chat in which he attempted to mislead the American public by pointing out the quantity of guns, airplanes, and other defense equipment that was "on hand and on order." In his press conference the President pointed out that it was unnecessary for the American publice to surrender any of its luxuries for defense. He declared it was unnecessary for the American public to give up chocolate sodas and lipsticks in order to have national defense. He stated the people should not become "discomboomerated" by the defense program. What is more, he asserted that the program we had then underway should not be confused with our activities during the last war. This was only a defense program, not mobilization. It did not involve a major effort such as was the case in 1917. This press conference as reported by the New York Times of May 29, 1940, is well worth quoting at length:

The President said that there was no reason for the country to become "discomboomerated" in apprehension of what may come to pass. The women of the country would not have to give up their cosmetics, lipsticks, and chocolate sodas in consequence of the preparedness program. It was the intention not to upset the normal trends of American life any more than necessary.

Mr. Roosevelt underscored his observation that the present defense program was not to be compared with that of 1917, when the Nation was attempting to raise an army of 4,000,000 men. There was no thought in government today to revive the draft system, whether of men or money.

The whole idea was that the present troubled state of international affairs called for an outlay of about a billion and a quarter dollars over and above the $2,000,000,000 that was being spent on the Military and Naval Establishments, and it was necessary to set up an organization to supervise the expenditure and make it effective.

What the administration was undertaking now was nothing like a complete national mobilization, the President explained—New York Times, May 29, 1940.

Of course, the President, in his fireside chat of May 26, 1940, expressed the same view. Here he said:

There is nothing in our present emergency to justify a lowering of the standards of employment. Minimum wages should not be reduced. It is my hope, indeed, that the new speed-up of production will cause many businesses which now pay below the minimum standards to bring their wages up.

There is nothing in our present emergency to justify a breaking down of old-age pensions or unemployment insurance. I would rather see the systems extended to other groups who do not now enjoy them.

There is nothing in our present emergency to justify retreat from any of our social objectives—conservation of resources, assistance to agriculture, housing, and help to the underprivileged—New York Times, May 27, 1940.

President Roosevelt, in his Budget message submitted to Congress on January 6, 1941, still adhered to the same view. He believed that national income would be increased by the defense program and that the present taxes, applied to this increased income, would yield increased revenue. He asserted positively that it

was undesirable to impose any new taxes that would restrict consumption.

There is no agreement on how much of such an extraordinary defense program should be financed on a pay-as-you-go basis and how much by borrowing. Only very drastic and restrictive taxation which curtails consumption would finance defense wholly on a pay-as-you-go basis. I fear that such taxation would interfere with the full use of our productive capacities. We have a choice between restrictive tax measures applied to the present national income and a higher tax yield from increased national income under less restrictive tax measures. I suggest, therefore, a financial policy aimed at collecting progressive taxes out of a higher level of national income. I am opposed to a tax policy which restricts general consumption as long as unused capacity is available and as long as idle labor can be employed.

We cannot yet conceive the complete measure of extraordinary taxes which are necessary to pay off the cost of emergency defense and to aid in avoiding inflationary price rises which may occur when full capacity is approached.

However, a start should be made this year to meet a larger percentage of defense payments from current tax receipts. The additional tax measures should be based on the principle of ability to pay. Because it is the fixed policy of the Government that no citizen should make any abnormal net profit out of national defense, I am not satisfied that existing laws are in this respect adequate. (Message transmitting the Budget, 1942.)

Apparently he believed that the productive capacity of the country could increase without limit.

Probably the most extreme statement of the more-guns-and-more-butter school of thought was that stressed by Gearhard Colm at the American Academy of Political and Social Science in March 1941. Mr. Colm, who is a fiscal analyst of the Bureau of the Budget, asserted that the national-defense program would not cost the national economy a penny. In fact, it would be quite the contrary. He asserted that the national economy as a whole would make a profit of $5,000,000,000 off the national-defense program. The national income would be tremendously increased by Government spending. The increased national income could be taxed at the present level of taxation and the returns from these taxes would pay for the national-defense program. The national income would be increased by $5,000,000,000 more than the total cost of defense, which would all be paid from taxes. His words were:

These expenditures have stimulated the use of idle resources to such an extent that production for civilian consumption has increased in addition to the increase in defense production. * * *

It seems reasonable to assume that within 1 or 2 years national production can be stepped up to at least $90,000,000,000 (in terms of 1940 prices). That would be an increase of almost $20,000,000,000 over and above the annual rate of the national income in the first 6 months of the calendar year 1940. If such an increase in national income should be achieved, and if the total defense program should absorb as much as $15,000,000,000 in that year, it would still leave an increase of $5,000,000,000 for consumption and investment over and above the level of the first 6 months of the calendar year 1940. (The Cost of Arming America, the Annals, March 1941, p. 11.)

It is quite apparent that he believed the capacity of the national income to increase the production of both consumers' goods and defense materials was unlimited.

Mr. William Knudsen, Director General of the Office of Production Management, was one of the greatest supporters of this idea in the early days of the defense program. He ridiculed any person who believed that the defense program should come first and normal consumers' needs should be superimposed upon defense needs so far as they could be met. In a speech that he made on October 9, 1940, in New York, he said:

This is a large amount of work to throw into the productive labor picture of the United States and will have its effect on the general business picture after it gets under way. We decided at the start to superimpose the program on the regular business of the country in order to absorb as much idle plant and men as was possible at the beginning and then adjust later when the defense load was spread. One of our many constructive critics took me to task last week in the papers for doing this, saying that it was all well and good to superimpose the program on the regular business but that he felt it should be the other way around in order that the defense program could really get a clean track. This of course is all right after the program is ready—what he did not realize was that shop drawings, tooling, and materials have to be provided before we could adjust the load. In this respect we are reminded of Mr. Kettering's famous remark that "two hens sitting on the eggs do not produce the chicks in half the time." (Press release, National Defense Advisory Commission, October 8, 1940.)

The high priest of New Deal economics, Mr. Leon Henderson, was long addicted to the more-guns-and-more-butter school of thought. On October 23, 1940, he asserted that the productivity of the national economy would be increased by 15 percent during the next year or two and that this increase in productivity would give us defense, reemployment, and a higher standard of living. In this speech he said:

Today we are at a new high. And this means that our industrial output per person also has been reaching new high levels.

Even so, our industrial plant is not staggering, wheezing, or giving any signs of imminent collapse. There is a lot of power in reserve to climb the hills ahead. Unless the "guesstimators'" signs of the zodiac fail, industrial production will climb 15 percent above current levels within the next year or so. Out of this additional 15 percent, which represents about $11,000,000,000 in national income, this country will get defense, reemployment and a higher standard of living. (Press release, National Defense Advisory Commission, October 23, 1940.)

This was a pretty strong stand, but it was the usual New Deal stand. The emphasis was always placed upon the fact that it was not necessary to make any sacrifices on the part of the consuming public. It certainly was consoling to the public to be told this. They wanted to hear it, and the new dealers wanted them to believe it because they could get more popular support for the defense program if the people believed it would not disturb their ordinary mode of living but that it would really enrich and widen their consuming habits.

But as it now turns out, and as it could have been observed by any person who did not want to be lulled into a false sense of security by soft words, this whole philosophy has proved anything but feasible. The new dealers apparently did not envisage the full scope of the national-defense program. They did not realize, or else refused to admit, that there would be any shortages in the productive capacity of industry or in the supply of skilled labor that we would have to draw upon. All during the winter of 1940–41 we have heard about increasing plant capacity for many goods in order to have both more guns and more butter. New dealers confidently asserted that we could increase steel capacity by 10,000,000 tons. They did not talk about restricting the consumption of steel. They did not seem to realize that it would take 2,000,000 tons of steel to increase plant capacity for the production of 10,000,000 more tons of steel; the fact that it would require a diversion of 2,000,000 tons of steel from national defense for such plant expansion, for at that time the steel industry was already producing at the peak of capacity.

In order to support the more-guns-and-more-butter argument certain falsifications were presented in New Deal press releases. For example, on November 28, 1940, the National Defense Advisory Commission issued a press release that there was no shortage of aluminum but that there was sufficient aluminum for all needs, both in national defense and for increasing consumer purchases. In this press release it was stated:

Edward R. Stettinius, Jr Commissioner in charge of the Industrial Materials Division of the National Defense Advisory Commission, made the following points today (November 28) during his press conference on the subject of aluminum supply:

1. The production of ingot aluminum during the next 2 years, from the present plants and those additional units already planned, together with the secondary supply, appears adequate to take care of military requirements as now estimated, and present civilian requirements over the present level, or in military requirements if needed.

Ingot production has already been increased from the 1939 level of 325,000,000 pounds to the present capacity of 465,000,000 pounds per year.

Expansions already under way and planned will increase the level to 690,000,000 pounds per year by July 1941 and 825,000,000 pounds by July 1942. This July 1942 production will be two and one-half times the 1939 level. (Press release, National Defense Advisory Commission, November 28, 1940.)

As was demonstrated clearly in the hearing of the Senate Select Committee Investigating National Defense in May 1941 at that very time—November 1940—the Aluminum Co. of America, which was then the sole producer of aluminum in America, was administering an unofficial priority system for the allocation of aluminum for defense and nondefense needs because there was not sufficient aluminum being produced to meet the needs even at that time. Apparently the New Deal didn't want to break the sad news to the American public and inform the American housewife that it would not be possible for her to have a new washing machine, a new and shiny coffee pot,

or other such useful household gadgets, and defense all at the same time. Finally, in an article published in the Harvard Business Review in June 1941, Mr. Henderson admitted the falsity of the more guns and more butter school of thought that he had so vigorously championed. In this article he said:

By all odds, the best type of control of inflation is to increase production. If output could be increased to keep pace with effective demand there never would be any inflation. So far as it is possible, it should be our aim to use the remedy of increased output. Whenever a shortage appears, we should try to make good the shortage. But unfortunately, this method is limited in its usefulness under the present emergency conditions. To get enough armament, we must divert labor and productive facilities from the production of consumer goods to the production of defense goods. The slogan of "business as usual," the argument that we can have more guns and more butter both, has had to give way before the stern necessity of speedily increasing the defense effort. In all probability it is necessary to devote as much as 40 percent of our total productive capacity to military expenditures; and, therefore, the increase of production of civilian goods to curb price inflation is rapidly becoming a weapon of limited effectiveness (press release of the O. E. M.).

In fact, Mr. Henderson has gone even further. He has said not only that we cannot have more butter, but he has stated that we will have to produce less consumer goods in the future than we have been. In an article in the July 1941 issue of Fortune he stated that we would have to restrict production of consumers' goods by at least $6,000,000,000 or $7,000,000,000 during the next year. And on July 14, 1941, he said:

It is becoming evident now that the amount of materials required for armaments is going to be so great that we won't have enough left over for consumers' durable goods.

Certainly, if you restrict the supply of consumers' goods it is impossible for the American people to have more butter. Thus these new dealers, in order to make the defense program more palatable to the American public, have committed a great wrong on the public, retarded national-defense production, and injured the national economy.

It would have been much better for the American public to realize at the earliest possible date that it would have to make sacrifices for national defense. The earlier they realized it the earlier they could reshape their normal habits in order to fit the new situation. The earlier the consumption of consumers' goods was restricted, the more materials would be available for the production of national defense. The earlier the scarcity of important materials was realized the more likely was the possibility of plant expansion.

The failure to utilize as much of our natural resources as possible in the early stages of the program will slow up production for months to come. It will make it harder to restrict the consumption of consumers' goods after this false philosophy has had a whole year to take hold. The potentialities of inflation would by then have been increased as a consequence and the ultimate realization on the part of the American public that it has been misled by false theory will not increase public morale. Thus this overly simplified and erroneous New Deal theory has, I am certain, already proved exceedingly dangerous to our defense effort.

Mr. DOUGHTON. Mr. Chairman, I move that the Committee do now rise.

The motion was agreed to.

Accordingly the Committee rose; and the Speaker having resumed the chair, Mr. COLE of Maryland reported that the Committee, having had under consideration the bill (H. R. 5417) to provide revenue, and for other purposes, had come to no resolution thereon.

TRIALS OF AND JUDGMENTS UPON THE ISSUE OF GOOD BEHAVIOR IN THE CASE OF CERTAIN FEDERAL JUDGES

Mr. SABATH, from the Committee on Rules, submitted the following resolution (H. Res. 282), which was referred to the House Calendar and ordered to be printed:

Resolved, That upon the adoption of this resolution it shall be in order to move that the House resolve itself into the Committee of the Whole House on the state of the Union for the consideration of the bill (H. R 146) to provide for trials of and judgments upon the issue of good behavior in the case of certain Federal judges. That after general debate, which shall be confined to the bill and continue not to exceed 3 hours, to be equally divided and controlled by the chairman and ranking minority member of the Committee on the Judiciary, the bill shall be read for amendment under the 5-minute rule. At the conclusion of the reading of the bill for amendment, the Committee shall rise and report the same to the House with such amendments as may have been adopted, and the previous question shall be considered as ordered on the bill and amendments thereto to final passage without intervening motion except one motion to recommit.

EXTENSION OF REMARKS

Mr. JARMAN asked and was given permission to revise and extend his own remarks in the RECORD.

Mr. STEARNS of New Hampshire. Mr. Speaker, I ask unanimous consent to extend my own remarks in the RECORD and to include therein an editorial.

The SPEAKER. Is there objection to the request of the gentleman from New Hampshire?

There was no objection.

Mr MARTIN of Massachusetts Mr. Speaker, I ask unanimous consent that the gentleman from Michigan [Mr. HOFFMAN] may extend his own remarks in the RECORD and include two short newspaper articles.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

Mr. COSTELLO. Mr. Speaker, I ask unanimous consent to extend my remarks in the RECORD and to include therein a brief statement by Roscoe Pound, dean emeritus of the Harvard Law School.

The SPEAKER. Is there objection to the request of the gentleman from California?

There was no objection.

(Mr. PATRICK asked and was given permission to revise and extend his own remarks in the RECORD.)

THE REVENUE BILL

The SPEAKER. Without objection, House Resolution 279 with reference to the bill now under consideration in Committee of the Whole will be laid on the table.

There was no objection.

LEAVE OF ABSENCE

By unanimous consent leave of absence was granted as follows:

To Mr. CASE of South Dakota, indefinitely, on account of official business.

To Mr. GREGORY, for 5 days, on account of official business.

EXTENSION OF REMARKS

Mr. TINKHAM. Mr. Speaker, I ask unanimous consent to extend my remarks in the RECORD and to include therein a dispatch published yesterday in the New York Times.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

SENATE BILL REFERRED

A bill of the Senate of the following title was taken from the Speaker's table and, under the rule, referred as follows:

S. 1770. An act authorizing the President of the United States to appoint Sgt. Alvin C. York as a colonel in the United States Army, and then place him on the retired list; to the Committee on Military Affairs.

ENROLLED BILLS SIGNED

Mr. KIRWAN from the Committee on Enrolled Bills, reported that that committee had examined and found truly enrolled bills of the House of the following titles, which were thereupon signed by the Speaker:

H. R. 1855. An act for the relief of Laura McStay; and

H. R. 3802. An act for the relief of Louis A. Schwan.

BILLS PRESENTED TO THE PRESIDENT

Mr. KIRWAN, from the Committee on Enrolled Bills, reported that that committee did on this day present to the President, for his approval, bills of the House of the following titles:

H. R. 1855 An act for the relief of Laura McStay; and

H. R. 3802. An act for the relief of Louis A. Schwan.

ADJOURNMENT

Mr. DOUGHTON. Mr. Speaker, I move that the House do now adjourn.

The motion was agreed to; accordingly (at 5 o'clock and 3 minutes p. m.) the House adjourned until tomorrow, Thursday, July 31, 1941, at 12 o'clock noon.

COMMITTEE HEARINGS

COMMITTEE ON PUBLIC BUILDINGS AND GROUNDS

There will be a meeting of the Committee on Public Buildings and Grounds at 10 a. m. on Thursday, July 31, 1941, in the caucus room for consideration of House Resolution 209.

COMMITTEE ON THE JUDICIARY

Subcommittee No. 1 of the Committee on the Judiciary will start hearings in room 346, old House Office Building, on Wednesday, August 6, 1941, at 10:30 a. m., on H. R. 5234, to amend the Judicial Code

in respect to the jurisdiction of the Court of Claims in certain cases. (Mr. SUMNERS of Texas.)

EXECUTIVE COMMUNICATIONS, ETC.

Under clause 2 of rule XXIV, Executive communications were taken from the Speaker's table and referred as follows:

799. A letter from the Under Secretary of Agriculture, transmitting a report on the agricultural experiment stations for the fiscal year ended June 30, 1940; to the Committee on Agriculture.

800. A letter from the Chairman, Reconstruction Finance Corporation, transmitting a report of the activities and expenditures of the Reconstruction Finance Corporation for the month of May 1941 (H. Doc. No. 333); to the Committee on Banking and Currency and ordered to be printed.

801. A letter from the Secretary of War, transmitting letters from the Chief of Engineers, United States Army, dated June 19, 1941, submitting a report, together with accompanying papers and illustrations, on reexamination of Mermentau River and tributaries, Louisiana, and Louisiana and Texas Intracoastal Waterway from Mississippi River at or near New Orleans, La., to Corpus Christi, Tex., requested by resolutions of the Committee on Flood Control, House of Representatives, adopted January 26, 1939, the Committee on Rivers and Harbors, House of Representatives, adopted January 24, 1939, June 6, 1939, June 23, 1939, and October 28, 1940, and the Committee on Commerce, United States Senate, adopted February 8, 1939; to the Committee on Rivers and Harbors.

802. A letter from the Secretary of War, transmitting a letter from the Chief of Engineers, United States Army, dated June 23, 1941, submitting a report, together with accompanying papers and illustrations, on a preliminary examination and survey of, and review of reports on, Bayou Teche, Teche-Vermilion waterway and Vermilion River, La., authorized by the River and Harbor Acts approved August 26, 1937, and June 20, 1938, and requested by resolutions of the Committee on Flood Control, House of Representatives, adopted January 26, 1939, the Committee on Rivers and Harbors, House of Representatives, adopted January 24, 1939, and the Committee on Commerce, United States Senate, adopted February 8, 1939, and July 19, 1940; to the Committee on Rivers and Harbors.

REPORTS OF COMMITTEES ON PUBLIC BILLS AND RESOLUTIONS

Under clause 2 of rule XIII, reports of committees were delivered to the Clerk for printing and reference to the proper calendar, as follows:

Mr. SABATH: Committee on Rules. House Resolution 280. Resolution providing for the consideration of H. R. 5417, a bill to provide revenue, and for other purposes; without amendment (Rept. No. 1076). Referred to the House Calendar.

Mr. FULMER: Committee on Agriculture. H. R. 5171. A bill to amend section 392 of the Agricultural Adjustment Act of 1938, as amended, so as to provide for separate appropriation accounts for administrative expenses of the Agricultural Adjustment Administration, so as to modify the 1- and 2-percent limitations on administrative expenses and to provide over-all limitations in lieu thereof, and for other purposes; with amendment (Rept. No. 1077). Referred to the Committee of the Whole House on the state of the Union.

Mr. BLAND: Committee on the Merchant Marine and Fisheries. H. R. 5397. A bill to provide for the protection of the fish-cultural station at Spearfish, S. Dak.; without amendment (Rept. No. 1078). Referred to the Committee of the Whole House on the state of the Union.

Mr. BLAND: Committee on the Merchant Marine and Fisheries. House Joint Resolution 221. Resolution to declare abandoned the title of the city of Marquette, Mich., to certain land in the county of Marquette, and to vest control of such land in the Secretary of the Treasury for Coast Guard purposes; without amendment (Rept. No. 1079). Referred to the Committee of the Whole House on the state of the Union.

Mr. SABATH: Committee on Rules. House Resolution 282. Resolution for consideration of H. R. 146, to provide for trials of and judgment upon the issue of good behavior in the case of certain Federal judges; without amendment (Rept. No. 1081). Referred to the House Calendar.

REPORTS OF COMMITTEES ON PRIVATE BILLS AND RESOLUTIONS

Under clause 2 of rule XIII, reports of committees were delivered to the Clerk for printing and reference to the proper calendar, as follows:

Mr. KING: Committee on Immigration and Naturalization. H. R. 5300. A bill for the relief of Louise Hsien Djen Lee Lum; without amendment (Rept. No. 1080). Referred to the Committee of the Whole House.

PUBLIC BILLS AND RESOLUTIONS

Under clause 3 of rule XXII, public bills and resolutions were introduced and severally referred as follows:

By Mr. CULLEN:

H. R. 5443. A bill authorizing the Secretary of the Treasury to convey an easement in certain lands to the city of New York, and for other purposes; to the Committee on Public Buildings and Grounds.

By Mr. SCHULTE:

H. R. 5444. A bill to amend the act to regulate barbers in the District of Columbia, and for other purposes; to the Committee on the District of Columbia.

By Mr. ANGELL:

H. R. 5445. A bill for the relief of veterans of the Spanish-American War, including the Philippine Insurrection and Chinese Boxer Rebellion; to the Committee on Pensions.

By Mr. BLAND:

H. R. 5446. A bill to establish a system of unemployment insurance for the maritime industry, and for other purposes; to the Committee on the Merchant Marine and Fisheries.

By Mr. RANDOLPH:

H. R. 5447. A bill to amend section 907 of the act entitled "An act to establish a code of law for the District of Columbia," approved March 3, 1901, relating to second conviction of criminal offenses; to the Committee on the District of Columbia

H. R. 5448. A bill to define and punish vagrancy in the District of Columbia, and for other purposes; to the Committee on the District of Columbia.

By Mr. DICKSTEIN:

H. J. Res. 225. Joint resolution to declare October 28, 1941, Statue of Liberty Day; to the Committee on the Judiciary.

By Mr. BLAND:

H. Res. 281. Resolution authorizing the Committee on the Merchant Marine and Fisheries to investigate the progress of the national-defense program insofar as it relates to said committee; to the Committee on Rules.

PRIVATE BILLS AND RESOLUTIONS

Under clause 1 of rule XXII, private bills and resolutions were introduced and severally referred as follows:

By Mr. BARRY:

H. R. 5449. A bill for the relief of Mrs. Cecile Herzog and Lucille Herzog (an infant); to the Committee on Claims.

By Mr. DAVIS of Ohio:

H. R. 5450. A bill granting an increase of pension to Rachel L. Rector; to the Committee on Invalid Pensions.

By Mr. EDWIN ARTHUR HALL:

H. R. 5451. A bill awarding the Distinguished Service Cross to Pvt. Charles B. Terrell; to the Committee on Military Affairs.

By Mr. KILBURN:

H.R. 5452. A bill for the relief of Emmett Armstrong; to the Committee on Claims.

By Mr. RODGERS of Pennsylvania:

H. R. 5453. A bill granting an increase of pension to Sophronia Bronson; to the Committee on Invalid Pensions.

By Mr. SMITH of Washington:

H. R. 5454. A bill for the relief of David Caron; to the Committee on Claims.

By Mr. SHERIDAN:

H. R. 5455. A bill for the relief of Rebecca Goldbaugh; to the Committee on Invalid Pensions.

PETITIONS, ETC.

Under clause 1 of rule XXII, petitions and papers were laid on the Clerk's desk and referred as follows:

1704. By Mr. HART: Petition of the Hoboken (N. J.) Chamber of Commerce, Ogden H. Hammond, president, recommending a rigid economy in nondefense expenditures through the elimination of all deferrable public improvements; to the Committee on Appropriations.

1705. By Mr. MARTIN J. KENNEDY: Petition of the New York Zoological Society, opposing House bill 2675, known as the Murdock bill; to the Committee on the Public Lands.

1706. By Mr. KEOGH: Petition of the Kings County Council, Jewish War Veterans of the United States, Brooklyn, N. Y., concerning the retaining in the service of the United States Army, the Federalized National Guard, selectees, Reserve officers, and others in the service; to the Committee on Military Affairs.

1707. By Mr. JOSEPH L. PFEIFER: Petition of the Kings County Council, Jewish War Veterans of the United States, Brooklyn, N. Y., concerning the retention of the armed forces now in training for the period of the emergency; to the Committee on Military Affairs.

1708. By Mr. ROLPH: Resolution of the Western Plant Board, State of California department of agriculture, requesting Congress to continue undiminished the annual appropriation made to the Bureau of Entomology and Plant Quarantine of the United States Department of Agriculture for emergency control of incipient pest outbreaks; to the Committee on Appropriations.

1709. By Mr. SHAFER of Michigan: Resolution of the Michigan State Union Meeting Association of the Brotherhood of Locomotive Engineers, opposing the St. Lawrence-Great Lakes seaway; to the Committee on Rivers and Harbors.

1710. Also, resolution of the Council of the City of Dearborn, Mich., requesting that curtailment in production of automobiles be made on a basis that would prevent widespread unemployment in the automotive industry; to the Committee on Ways and Means.

1711. By Mr. TALLE: Petition of Mrs. I. H. Benson and 46 other women of Rockford, Iowa, urging the enactment of Senate bill 860; to the Committee on Military Affairs.

1712. By Mr. VORYS of Ohio: Petition of H. F. Stafford and 35 others, urging the passing of Senate bill 860; to the Committee on Military Affairs.

1713. By the SPEAKER: Petition of the county of San Diego, Calif., petitioning consideration of their resolution with reference to the enactment of legislation for the establishment of an old-age pension program; to the Committee on Ways and Means.

It is the purpose of the bill to pay the sum of $800 to Lillian Korkemas and the sum of $248 to Rose Grazioli, both of Troy, N. Y., in settlement of their claims against the United States for damages, and for pain and suffering resulting from personal injuries sustained on April 7, 1940, when the automobile in which they were riding was struck by a truck in the service of the Post Office Department.

I am advised by the Post Office Department that it, under authority of law, has paid Mrs. Korkemas the amount of $300 and Mrs. Grazioli the amount of $48 in settlement of their actual damages resulting from the accident, whereas the proposed payments of $800 and $248, respectively, indicate that said amounts are to cover damages and pain and suffering of these claimants; and, to the extent of the damages representing $300 and $48, respectively, approval of the bill would apparently involve a duplicate payment.

I therefore feel obliged to withhold my approval from the bill, but would be glad to give my approval to a measure which would provide payment in the amounts set forth in the bill H. R. 3551 less the amounts of actual damages previously paid by the Post Office Department.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE, *July 31, 1941.*

The SPEAKER. The objections of the President will be spread at large upon the Journal.

THE REVENUE BILL—1941

Mr. DOUGHTON. Mr. Speaker, I move that the House resolve itself into the Committee of the Whole House on the state of the Union for the further consideration of the bill H. R. 5417, to provide revenue, and for other purposes.

The motion was agreed to.

Accordingly the House resolved itself into the Committee of the Whole House on the state of the Union for the further consideration of the bill H. R. 5417, with Mr. COLE of Maryland in the chair.

The Clerk read the title of the bill.

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from Illinois [Mr. DEWEY].

Mr. DEWEY. Mr. Chairman, I have asked for this time in order that I may discuss a feature of the pending tax bill reported last week by our great Committee on Ways and Means. This item was not discussed during the public hearings but became a part of the bill during the executive sessions.

In a search to find means of raising additional revenue, the administration proposed that a husband and wife be required to file a joint income-tax return. That recommendation has been incorporated in this bill.

It is contended that this radical innovation in our tax system will raise about $300,000,000 of additional revenue. It is also advocated as a way to prevent tax avoidance, as where one member of a family has all the income and transfers a portion of it to the other member, thereby causing the tax rate on the income of the original recipient to be lowered.

Despite these and other alleged benefits, I am constrained to protest. I believe the proposed compulsory joint return for husband and wife constitutes a radical departure from the American concept of equal rights and privileges. I believe it is an unjustified intrusion on the rights of women. I believe it will be a deterrent to the growth of the middle-class American family, which is the backbone of our economic life. And lastly, I believe the mandatory joint return is in effect, if not in fact, an indirect method of reducing the value of the $2,000 exemption from taxation allowed under existing law to a husband and wife.

In the past and under existing law a husband and wife have been considered separate entities. Each has been permitted to make an independent return and to apply the exemption allowed a married couple as suited them. Our laws recognize the right of a woman to own property in her own name and to dispose of it as she sees fit. And the Federal income-tax law has given this same recognition to the income derived from this property.

Ever since the passage of the nineteenth amendment, giving the right of suffrage to women, it has become an established American principle that women enjoy the same rights as men. While laws of the States differ, generally speaking the States have enacted various statutes abolishing the old common-law restrictions on the rights of women. It is now the American doctrine that a woman has freedom of contract and the right to hold and convey property in her own right. A married woman may sue in her own name and is liable to suit. The individual earnings of a married woman are her separate property and not subject to the control and disposition of her husband.

The mandatory joint return would mean a complete departure from this established American doctrine. It smacks of the old medieval conception that a husband and wife are one; namely, the husband, and that if a wife had any status at all, it was merely a chattel. I cannot bring myself to believe that the American womanhood today will accept any such medieval concept.

Today almost every young woman graduating from high school or college seeks a position in the business world. She desires to be financially independent. Women have distinguished themselves in the medical and legal professions. They occupy places of leadership in banking, insurance, and business generally. They have made a great contribution to the various social sciences. In the Congress itself we have as colleagues nine duly elected women representatives of the people. The mere fact that women are elected to the Congress is evidence enough that the American people adhere to the principle that American women are independent.

To require a married woman to report her income as being income of her husband as well as herself is to deny women their independent status. I believe the American women will not be willing to accept this encroachment on their independent status because of a Federal tax-law provision inserted to gain additional revenue otherwise obtainable by a frank and open increase of the tax rate upon the individual. If the American women are to be treated as chattels, I venture to predict that they will remember this return to the dark ages when they next go to the polls.

Not only does the mandatory joint return constitute an encroachment upon the independent status of American women; it is an attack on marriage, in that such a requirement imposes a penalty on the family.

I give as an example a successful young man with earned income before exemptions of $5,000 and a young woman with an earned income before exemptions of $3,000. Under the pending tax bill the young man pays a tax of $430 and the young woman $192, a total of $622. If they marry and are permitted to make separate returns, their tax will be reduced to a total of $568, due to the larger family exemption. However, if this newly married couple are forced to make a joint return, their tax will be increased to $688, or an increase of 21 percent in tax money required.

The group of people who will be most affected by the innovation of the mandatory joint return in our Federal tax system is the thousands of families of moderate means with two or three children of college age. Take, for instance, the example of a married man with an earned income of $10,000 before exemptions and his wife with an earned income of $3,000. Using the tax rates in the pending bill, if these two were permitted to file a separate return, their total tax would be $1,348. Under the mandatory joint return their combined tax would be $1,768, or an increase of 31 percent in tax money. This increase of 31 percent represents the cost of a year's education at college for one of their children.

It is imperative that the Treasury collect unprecedented sums in the form of taxes to finance the unprecedented expenditures for our national defense and aid to Great Britain, to both of which this country is committed. The people have as yet little conception of the tax burden they are about to be asked to bear and the sacrifices they will be obliged to make. This burden may be more readily accepted and the sacrifices made if the people have concrete examples of economy set by the Government itself in the elimination and reduction of all unnecessary and nondefense items in the Budget.

Moreover, in making these demands of the people I believe that great forthrightness should be maintained. The Treasury officials argue that the base of taxation is as broad as is possible and that there should be no reduction in exemptions. But, as a matter of fact, a study of the mandatory joint return by husband and wife proves that the tax value of the exemption of $2,000 allowed married couples is reduced or the relative tax value of $800 allowed single persons increased.

It is presumed that as the exemption for a single person is only $800 and that for a married couple $2,000, the Congress desires to encourage the marital status. The proposed mandatory joint return completely annuls this policy.

Take, as an example, a single man with a $4,000 income and a single woman with a $3,000 income. Each takes a deduction

of $800 and files a separate return. The man will pay a tax of $308 and the woman $192, a total for both of $500.

This couple marries, and their combined income remains the same, but as a married couple they are allowed an exemption of $2,000. They file separate returns, as heretofore permitted, each taking an exemption of $1,000. Their total tax will be $452, or 9.6 percent less than they both paid when single. Hence, as a married couple they have benefited by the larger exemption of $2,000.

Now, under the pending mandatory joint return it will be found that by combining their incomes they will have to pay $542 instead of $452 and that their tax is over 8 percent greater than when they were single and only had $800 exemption apiece instead of $2,000 between them. Under the joint return this young couple should be allowed an exemption of $2,200 if they are to enjoy the same privilege as when single and not be penalized by marrying. Conversely, to go back to my original statement, the mandatory joint return will, in effect, reduce the tax value of the exemption to about $1,800 for married couples with a combined earned income of $7,000.

Let us consider now the situation of persons of larger income—the man with an earned income of $10,000 and a woman with an earned income of $3,000. If each makes a separate return and takes the individual exemption of $800, the man will pay a tax of $1,336 and the woman $192, a total for the two of $1,528. Suppose this couple marries and are allowed the larger exemption of $2,000 for married couples but are forced to make a joint return of income. Their tax will be increased to $1,768, or by over 15 percent. In order that this couple will not be penalized by marrying, their family exemption should be increased to $2,900; or conversely, the mandatory joint return of husband and wife will reduce the tax value of the family exemption to about $1,100.

As I have said, in giving a family exemption of $2,000 for tax purposes, it was the intent of Congress to aid the American family form of life. That has always been the spirit of American law. The innovation of the joint return will, however, completely disturb the relationship between this exemption and the single person's exemption of $800. If the Congress does not wish to place a premium on remaining single, in direct opposition to its former policy, one of three steps must be taken:

First. Refuse to accept the mandatory joint return for husband and wife.

Second. Increase the exemptions for married couples.

Third. Decrease the exemption for single persons.

To return to the example of the young couple, the man with an income of $4,000 and the woman with an income of $3,000. Each filed a separate return, taking an individual exemption of $800. Their total tax would be $500. Should they marry and make a joint return, their tax, as I have stated, would be increased to $542. In order that their tax may remain the same before and after marriage and so as not to place a premium on remaining single, the individual exemption must be reduced for persons of this income class to $600 instead of $800, as now allowed. Further adjustment downward would have to be made as the income increases.

As you have doubtless noted, in all the illustrative cases I have presented as to how the mandatory joint return operates I have not included the defense tax of 10 percent. I have omitted this tax in my calculations, inasmuch as it is a flat rate applicable to all individual taxpayers regardless of status or classification.

To recapitulate, there is nothing new in the theory of the joint return. It has been urged by the Treasury Department ever since 1933, principally to invade the rights of the several States which have elected to have community property between husband and wife. The mandatory joint return also invades the rights of American women. Moreover, as I have endeavored to show, the mandatory joint return annuls the intent of Congress to stimulate the development of American family life by reducing the tax value of the family exemption.

I believe the joint return is just another case of bringing into being another unpopular project by dressing it up in the uniform of a national-defense necessity. The same revenue can undoubtedly be obtained by frankly reducing the exemptions, thereby bringing directly to the people's understanding what the present cost of government really means to them.

I cannot protest too strongly against the mandatory joint return item in this bill. It is arbitrary, discriminatory, and un-American.

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from Vermont [Mr. PLUMLEY].

Mr. PLUMLEY. Mr. Chairman, it is urged and rightly so that we must raise more taxes for national defense. Of course, that is true. The reason why, and the responsibility for the situation is not, however, found primarily in the fact that the war is on.

The reason why we have to raise more money by the imposition of heavier taxes is found in the fact that money heretofore voted for preparedness has gone into New Deal boondoggling social experimentation and 40 other foolish projects fathered by the administration, which have created, at the taxpayers expense, a prosperity as unreal as an opium eater's dream. That is where we stand as we take a dive into the unknown today.

Just how much money can we raise? We need all we can get today to make up for the foolishness of yesterday, and to really defend ourselves. We ought to have thought of this 7 years ago, and through the 7 years as money has poured out and through the New Deal sieve like water into sand.

Of course we need it. I shall vote for it, though I have voted against the New Deal policy of spending and spending, because, as I have said repeatedly, this day of reckoning would arrive. It is here.

I realize the futility and fatuity involved in speech making with respect to the provisions of this bill, but I do not propose to let the opportunity pass without saying, that though I shall vote for it, because we must have the money, and as a temporary measure it is the best we can get, yet had it not been for the wasteful, wanton, reckless spending program of the last 7 years this bill would not have been necessary. And others are on the line.

We approach this fortieth emergency of the Roosevelt administration because of the road paved with taxpayers' money carelessly and wastefully expended, that could lead nowhere else, and for no other reason. That is the reason. Do not be fooled.

The taxpayers' money has been squandered without rhyme or reason and the sun of the day of reckoning has risen. God only knows when it will set. The people certainly will be tax conscious for many, many years before the taxes and taxes and more taxes are paid. That is the sequel to the story the first chapters of which only have been written. "My friends."

Franklin D. Roosevelt will be remembered longer than all of our other Presidents, singly or combined; but not for the same reasons. He has wastefully spent and unwisely allocated more money than all of them combined, and not wisely, but too much. As the people pay, and pay "through the nose" down the long years, they will remember him.

Now we are confronted by inflation, bankruptcy, and/or repudiation. Right now, when we should be confronted with no financial emergency, the responsibility is on the doorstep of the Roosevelt administration, which has been productive of a procession of emergencies and broken promises to reduce debt and taxes and spending, and today we are face to face with an emergency that is "bigger and better" for it will cost the taxpayers more and more, and last longer than any or all of its predecessors. God save the state and pity the people who must bear the burden of paying the bills.

I could say a lot more about the bill itself, as drawn, but it would be a waste of breath and of time. So long as we spend, we will have to pay, and taxes is the answer.

The amount of money that will have to be raised in taxes out of the pockets of the people in order to pay existing obligations is so stupendously staggering as to be almost impossible of understating or appreciation. The length of time it will take in order to raise the money even on the basis of confiscatory taxes is unbelievable.

The people will have to pay the bills, and they danced to the polls and voted to continue the New Deal spending policy. It was a lot of fun, so long as they were not personally responsible. Now they will have to pay the fiddler; when they really become tax conscious and learn how they have been fooled by hidden taxes, as they will as these are increased; when the income tax reaches down to the $700 class and under; when the head tax is imposed, and they pay or work it out; when the sales tax is put on top of all the others, then they will realize that the only more abundant life to be offered,

or realized by any American, is found in his own effort and ability to carve it out for himself, without the aid or interference of a paternalistic government which feeds him the froth of promises while he dreams but wakes to feed himself, worse off than before he fell asleep listening to a bedtime story.

No tax bill can be drawn that is 100 percent equitable or just. That is history. This bill is neither, in many particulars. What is one man's meat is poison for another. So it has been and always will be.

This bill raises money. That is what it undertakes to do, let the chips fall where they may. The people must pay whether they like it or not. We need the money; that is the answer. But why? You think that over, and weep.

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from Ohio [Mr. McGREGOR].

Mr. McGREGOR. Mr. Chairman, the Nation's finances are in a critical state—not due to defense expenditure, but largely due to the extravagant spending and reckless borrowing of the present administration of the last 8 years. This extravagant program is objected to by not only Republicans of my district, but also those old-line Jeffersonian Democrats who believe with us Republicans that our Nation's strength is not based only on the number of guns, airships, battleships, and tanks that we have, but who believe that the morale of our people and the financial condition of our Nation are to be considered as a safety to sound and permanent government.

I am not worried so much about the size of the national debt as I am about the rapidity with which it has risen since Mr. Roosevelt took office. In 8 years the present administration has spent as much as it cost to run the Government during the first 131 years of our country—from the administration of George Washington through the administration of Woodrow Wilson, including the World War period. It has accumulated a series of staggering deficits, for nondefense items, that forces Congress to put upon the people a heavy tax burden. Yet even this tax program that we have before us is but a small percent of the amount required to meet the Government's deficit. Of the $67,000,000,000 spent in the last 8 years only approximately $5,000,000,000 represents an outlay for the defense program, a program which we are all in favor. But what I want to impress upon your mind is that the Nation's present financial condition was not caused by our defense expenditure. The following table sets forth the picture of the financial record from July 1, 1933, to July 30, 1941:

The New Deal fiscal record [1]

	Expenditures	Receipts	Deficits	Public debt
Fiscal year—				
1934	$6,011,000,000	$3,116,000,000	$2,895,000,000	$27,053,000,000
1935	7,010,000,000	3,800,000,000	3,210,000,000	28,701,000,000
1936	8,666,000,000	4,116,000,000	4,550,000,000	33,778,000,000
1937	8,177,000,000	5,029,000,000	3,148,000,000	36,425,000,000
1938	7,239,000,000	5,855,000,000	1,384,000,000	37,165,000,000
1939	8,707,000,000	5,165,000,000	3,542,000,000	40,440,000,000
1940	8,998,000,000	5,387,000,000	3,611,000,000	42,968,000,000
1941	12,710,000,000	7,607,000,000	5,103,000,000	48,961,000,000
Total	67,518,000,000	40,075,000,000	27,443,000,000	

[1] Figures from 1934 through 1940 taken from the 1942 Budget. Figures for 1941 taken from Treasury press release of July 2, 1941.

An examination of this chart will show that when the initial request was made for defense expenditure last year the New Deal spenders had exhausted the then existing debt limit of $45,000,000,000, and all spent for nondefense items. And, my friends, this is not the end. I prophesy that within a year our debt limit will exceed $100,000,000,000, with only a small percent used as an expenditure for defense.

Our fiscal situation is bad because of the Chief Executive's unwillingness to take a firm stand against congressional spenders when the worst years of depression were behind us. Today his attitude remains unchanged in spite of the advent of the defense program. The President's refusal to reduce nondefense spending and his silence on this subject is one of the underlying causes of our financial insecurity.

If the President showed by deeds as well as by words that he fully realized the dangers of uncontrolled expenditure and intended to support all economy moves that did not hamper the defense program, the thinking people of the country would feel greatly relieved. They would be more willing to support new tax proposals. But they want to be sure that increased revenues will be used for defense and not for nonessential expenditures. They would be willing to save more and buy more Government bonds if they felt sure their sacrifices would make the Government financially stronger.

I certainly agree with the minority report on the tax bill when it says:

> If the Government is going "all-out" for national defense, and "all-out" for taxes upon the people, it is compelled both by necessity and by a regard for its obligation to the taxpayers of the country to also go "all-out" for economy.

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from Wisconsin [Mr. JOHNS].

Mr. JOHNS. Mr. Chairman, H. R. 5417 is the result of 8 years of spending money and the creation of a huge debt for the people of the United States to pay. For 8 years we have drifted along and used the credit of the United States to keep the people pacified and quiet, handing out public funds to every person who could think of some scheme whereby he could use money. This Congress has been warned a number of times by its Members that the day of reckoning would soon be at hand, and today it has arrived. From now on we may expect taxes—more taxes and higher taxes.

This bill is before us under a rule which does not permit of any amendment to the bill unless approved by the committee, although many Members of Congress feel that there are many changes that should be made in it in order to make it equitable to all taxpayers. I am happy to know that we are going to be able to vote on the provision which would require joint income returns of husbands and wives and I appreciate the committee consenting to this amendment to the rule so that we can do so.

The results of joint returns for husbands and wives cannot be foreseen at the present time, but from the letters I have received opposing the joint return, from both wives and husbands, I am satisfied that it would cause a great deal of trouble in many families throughout the United States. It should be amended so that both the husband and the wife may make a separate return if they care to do so. In fact, the Supreme Court of the United States has said that that is what they should do. I call the attention of the Members of the House to the case of Hoeper against Tax Commission of Wisconsin, reported in Two Hundred and Eighty-fourth United States Reports at page 206. Here the Court decided that the Wisconsin law, which attempted to tax the combined incomes of husbands and wives, was unconstitutional. If it was unconstitutional for the State to do it, it certainly ought to be unconstitutional for the United States Government to do it. Many young men and women who marry nowadays have separate incomes, and to penalize them because they get married, and subject them to a larger income tax than they would have been required to pay if they had not married is not promoting the welfare of the United States and certainly would be against good public policy. The plea that we need the money is no justification for such arbitrary action on our part, because in addition to the full statutory share of all increases in individual taxes under the new schedules, 39 percent more than the total of such increases is to be extorted exclusively from individuals who are married; and, secondly, because the $323,000,000—represented by this 39-percent supertax on married individuals—could and should be equitably obtained from higher normal taxes and lower exemptions, as suggested by the Treasury, with adjustment of surtaxes if and as necessary, and from other sources in harmony with a sound public policy. There is no logical reason why the Government should in one breath declare that husband and wife are one and indissoluble for purposes of surtax but divided and as far apart as the poles for gift tax and death duty.

The tax proposed in the bill on motor vehicles, semitrailers, motor-vehicle parts and accessories, tires and tubes seems to be extremely high and should be lowered, but there is no way that this important matter can come before the membership for a vote. This affects truck companies, especially, because it is a well-known fact that any tax increase on the sale of commodities, such as are enumerated under

this section, are transmitted to the ultimate consumer and experience has taught us that objections are few and far between because the ultimate consumer is, in 99 cases out of 100, unaware of the fact that he is paying the bill, and the manufacturer, not being affected because he can raise prices in conformity with these increases, does not say anything about it.

The gasoline tax is high enough at the present time. Gasoline taxes were originated to provide funds for highways and highway regulation. Surreptitiously, this rich source of revenue has been tapped for other purposes, notably in Wisconsin where diversion is the subterfuge. New construction has declined as a result. The original Federal tax on gasoline likewise had some justification because of Federal aid grants for construction of highways in the different States. Gasoline is, in short, a poor base for a general tax, because it is inequitable. It is an ideal source of revenue for highway construction, where the money goes into improvements to help the people from whom it is collected, but not for the general purpose of running the Government. I covered the objections to this tax in an extension of my remarks in the CONGRESSIONAL RECORD on May 19.

I have also received several hundred protests against increasing the tax on beer. It is evident to everyone who has studied the subject of taxation that if you get the tax too high on any particular article, you do not gain any additional revenue, but in many instances consumption falls off and as a result you do not collect as much revenue as if the tax were not so high.

There have also been many protests filed with me against the increase of tax on the sale of musical instruments. To me this is a matter that should have received very serious consideration by the Ways and Means Committee—and no doubt it did receive some consideration by the committee. In recent years high schools have been organizing high-school bands and it is one of the best ways that I know that young people's minds can be directed in the right channels because when they are practicing to play in the band, their minds are occupied in wholesome and elevating education. If you tax the instruments to a point where the parents or the youngsters themselves cannot buy these instruments, you are doing an injury and an injustice to the young people of this country and in my opinion this tax should not have been placed on musical instruments.

Another of the taxes provided in this bill is that on outdoor advertising. The principal objection to this, of course, is that outdoor advertising is one of the means we have to educate people to buy articles and thus increase the sale of the products of everybody in the country, and if you put a tax on it, and a penalty, naturally you are not going to get as good results. It will naturally slow up business activity and reduce production, and as a result the national income will be decreased. The tax is unjust, in my opinion, for the following reasons:

First. The proposed tax would be confiscatory because it would amount to from over 50 percent to more than 100 percent of the profits realized annually by the individuals, partnerships, and corporations engaged in the outdoor advertising business, after fair compensation for personal services rendered. Obviously, therefore, the tax would defeat its intended purpose by the process of "killing the goose that lays the golden egg."

Second. If the purpose of the proposed tax on outdoor advertising is a legitimate one in securing revenue, it is apparent that it is a mistaken principle to attempt to levy a tax upon any medium of advertising itself, because a tax on any medium of advertising is an economic fallacy in that it would add to the problems of marketing and distribution, thereby handicapping manufacturing, production, and sales service. A tax on any form of advertising is similar to a tax on the tools of a workman or the services of a salesman.

Third. The proposed levy, while it is ostensibly an occupational tax upon the business of "renting billboard space to others" is actually a tax upon outdoor advertising and while there is a provision in the measure for taxing the net time sales of radio stations on a graduated scale from 5 to 15 percent, there is no proposed tax on other major advertising media such as newspapers, magazines, direct-mail, window displays, and car cards. Furthermore, the proposed levy is not equitable because it discriminates between advertising and all other selling effort.

Fourth. Based on knowledge of the physical facilities available in outdoor advertising, the proposed tax will not produce a gross revenue of more than $2,000,000, instead of the $7,000,000 anticipated, according to the announcement in the public press. Furthermore, the administration and mechanics of applying the tax, determining the measurements of structures, etc., would be more costly than the gross revenue produced by the tax.

Fifth. Outdoor advertising (billboards) is an efficient and economical method for the dissemination to the public by Government and industry respecting subjects important to the welfare of the Nation and its citizens and certainly should not be handicapped by a tax not levied on other forms of such communication. In the present emergency it would be detrimental to the success of the national-defense program and the maintenance of the national morale if any one of the fundamental means of disseminating information to the general public were to be crippled or made ineffective by the process of taxation, especially in view of the fact that it would not, in the final analysis, produce important revenue to the Government or serve any sound economic or sociological objective or purpose.

The record of service to the country by the organized outdoor-advertising industry during the period of national emergency represented by the World War and its aftermath is one which should cause us, the elected Representatives of the people, responsible for the Nation's welfare, to give serious thought to the future needs of the country, as well as the present, before lending our support to such an un-American and unsound confiscatory and discriminatory proposal as is contemplated.

Recent contributions in space, labor, and materials in the national interest made by the men and women owning and operating outdoor-advertising facilities in behalf of the United States Army and the U. S. O. are evidence of the readiness and capacity of the organized outdoor-advertising industry to serve the public interest.

Sixth. In the World War of over 20 years ago a similar tax on outdoor advertising, but expressly excluding newspaper advertising, was proposed, and the Ways and Means Committee, realizing that it was unfair and patently discriminatory, after investigating the matter, deleted it. Moreover, the committee found that the possible returns would be so small in proportion to the levy contemplated and the disastrous effects upon business generally, and especially the businesses served by outdoor advertising, would be so great, that it would be uneconomical to impose any tax upon outdoor advertising.

The same arguments as were proposed at that time are still applicable. Outdoor advertising is a national sales facility and offers the manufacturer and merchant the lowest-cost advertising facility available to them for the movement of goods from the manufacturer through the retailer to the consumer. Certainly a trade facility of this nature should not be penalized by a special tax which does not apply to other national advertising media, such as the newspapers and magazines.

Seventh. A tax on any form of advertising is uneconomical because it would serve to slow up business activity and therefore decrease the national income. Consequently the proposed levy on outdoor-advertising structures is absolutely unsound. As a matter of fact, the levy, as proposed, loses sight of the fact that outdoor advertising is a national advertising medium. By its very terms it proposes a tax on those concerns "who rent billboards to others" and makes it an occupational tax for such service. It, purposely or otherwise, disregards the fact that outdoor advertising is not a business of renting space, but is a national and recognized trade facility which the leading manufacturers of this country use for the exploitation of their products because it is the most economical medium per thousand of circulation for that exploitation.

For these reasons, I regret exceedingly that the Members of this House are not permitted to take up and vote on amendments and at least get the sentiment of the Members on these all-important matters included in this tax bill. Under the present rule, we must take it all or nothing. If we were not in such a serious condition financially in this country and did not need the money so badly, I would feel like voting against the bill. However, a majority of the taxpayers of this country have voted for the condition that we find ourselves in today, so there is not much that can be done by anyone now

except to find some means by which we can get the money to take care of our public expenditures and our increasing public debt.

Mr. DOUGHTON. Mr. Chairman, I yield 20 minutes to the gentleman from Missouri [Mr. DUNCAN].

Mr. DUNCAN. Mr. Chairman, I propose to discuss during this time title I of the bill, that is, the individual-income-tax provision. Under this title, it is proposed to raise $1,152,000,000 in excess of the schedules which are in effect under the present law. You who have read the report or the bill will have seen that it is not proposed to increase the normal rates. They remain as they are now, but the surtax rate is increased.

Under the present law the first $4,000 of income is exempt from the surtax but subject to the normal tax. The present bill proposes to reduce that amount to the first dollar of net income for surtax purposes; in other words, instead of the surtax beginning as it does now at $4,000, it will begin with the first dollar of income after the deductions and exemptions are taken.

The question may arise in your minds and in the minds of some who read the bill, "Why did you not increase the normal rate instead of imposing surtax rates and accomplish the same purpose?" The reason is this, and it applies to the individual income-tax returns just as it applies to the corporation income-tax returns: The normal tax rate on corporations has not been increased. There are many billions of tax-exempt securities in the United States which are exempt from the normal tax but not exempt from the surtax. It was the thought of the committee that in times like these the income from those billions of dollars' worth of Government bonds ought to be subjected to an income tax. During the past few years a great many people in this country who have money to invest have invested in this type of bond and have been satisfied with a comparatively small rate of return, but it seemed to us that they ought to bear a part of this burden. Therefore we imposed a surtax instead of increasing the normal tax to reach this income.

Another change in the proposed bill is that the earned-income credit of 10 percent will not be allowed for surtax purposes. Under the present law 10 percent of the income is deducted. That is a sort of wearing-out deduction. We allow depreciation on machinery and equipment, so why should not the human body or the human mind, which wears out just like a piece of machinery ultimately, have some consideration in that respect? Heretofore that was applicable for surtax purposes as well as normal tax purposes. It will be allowed under this bill for normal taxes but not for surtax purposes.

Mr. Chairman, it has been said a good many times on the floor of the House during this debate and during discussions on other tax bills that we ought to lower the base, that we ought to make everybody in the United States pay an income tax so that they would become tax conscious and refrain from making unnecessary demands upon the Government Treasury to meet the demands of certain groups in the country. I believe this is a beautiful thought, and it comes usually from those who are in the higher income tax brackets and want to avoid the payment, to a large degree, of their own income tax; but do not forget that whenever you lower the exemptions and reduce the brackets, whatever the amount of that deduction may be, it goes on top of the income tax payments imposed in the higher brackets. It is necessary to do that, or you would have to have a different ratio for those in the lower income brackets than for those in the upper brackets, and I do not believe that would be fair. In other words, every time you reduce the base $400, that $400 goes on top of the man who is already in the 75 percent bracket, and he pays a tax on that $400 at that rate.

There is another reason, it seems to me, that is stronger than that. Get this, if you please, and analyze it. There are more families in this country earning $500 or less than there ought to be or than we like to think there are. There are more people making $1,000 a year than we would like to have in the United States. The $500 group pays as great a percent of their income in taxes as those making between $5,000 and $10,000, and the $1,000 group pays as great a percentage of tax as those earning between $4,000 and $5,000. You will find in the hearings of the committee tables showing these facts.

Remember that in addition to this $1,152,000,000 which we are proposing to raise from personal income taxes, there is likewise an equal amount being raised from excise taxes which are being proposed upon almost every commodity that the people of this country use and they must meet that obligation. Every time they buy something they pay a part of that tax, and in addition to this they have their State taxes to meet.

So, Mr. Chairman, we must face the situation in a very practical way. You cannot take all that these people have. They are sufficiently tax conscious now when the remainder of their income, after the payment of these various obligations, is looked at. So it seems to me that they are paying now a greater percentage of their income than could really be expected of them, and this lower-income group meets 75 percent of the excise tax. Those in the higher-income groups, of course, pay, but in the lower-income groups every dollar of their income goes for living, whereas those in the higher-income groups spend it for many other types of things, as well as actual living expenses that must be met every day to meet the obligations of the ordinary family.

Mr. AUGUST H. ANDRESEN. Mr. Chairman, will the gentleman yield for a question?

Mr. DUNCAN. Briefly.

Mr. AUGUST H. ANDRESEN. Does the gentleman refer to indirect taxes paid by those consumers who receive around $500 a year?

Mr. DUNCAN. I refer to that; yes. I refer to the tax they pay every day as excise taxes that are not hidden. The expression "hidden taxes" to me is the most fallacious thing in the world, because the excise taxes are just as open and above board and written into the law the same as the income taxes which you pay every year under your return.

Mr. AUGUST H. ANDRESEN. I agree with the gentleman on that, but there are a whole lot of hidden taxes that the people pay when they buy things. Does the gentleman have any idea of the percentage of the dollar that is contained in hidden taxes?

Mr. DUNCAN. No; I do not have that in mind, but I know a few years ago, even before the last tax bill, one of the great insurance companies of the country made a survey and the families of this country with incomes of $1,800 paying no income taxes were paying $228.50 out of that $1,800 as taxes, and that is a greater percentage than you and I and the rest of us were paying.

There is not any way to get away from hidden taxes. Hidden taxes are represented in the taxes on the property we rent. They are represented in the taxes that are paid on the personal property that we buy every day. There is not any way to get away from these so-called hidden taxes unless we wipe out all forms of taxes on property.

Mr. REED of New York. Mr. Chairman, will the gentleman yield?

Mr. DUNCAN. I yield to the gentleman.

Mr. REED of New York. One of our greatest problems was not so much the hidden taxes as the hidden taxpayers whom we are trying to reach.

Mr. DUNCAN. That is right, and we have pretty well reached them, I will say to the gentleman.

Now, Mr. Chairman, I have heard it said several times by some gentlemen that they wish this tax bill was bigger; that they wished the rates were higher, and that we were paying more. You know we are paying a pretty good sum now. I hear it held up to us every day that our taxes, compared with those of Great Britain and Canada, are very small. Well, frankly, I am awfully glad we are living in the United States and not in Great Britain or Canada or anywhere else, and I hope that our taxes never will reach the height that they have in those countries. I, for one, am satisfied with the amount in this bill. As a matter of fact, I would have been satisfied had the rates not been as high as they are now. Do not forget for one moment that this tax bill is going to be retroactive so far as these individual taxes are concerned for practically 9 months. We are going to say to the taxpayers of this country that they must go back to the 1st of January 1941 and pay the taxes which we are now imposing upon them in this bill. They have made their obligations, they have anticipated their incomes, they may have gone into debt for certain things which they had a right to expect they would be able to pay for, and we come along with this tax bill and take a very large portion away from them. This is going to interfere with the obligations which they have created. I say to you now, and I have said this publicly to the people I represent, this bill

is going to be bigger next year. Next year, I am convinced, the rates will be higher. I am convinced they are going to be higher the next year after that, but we will finally build up to it. Let us not jump from here way up to here at one jump or from the second or third step to about the tenth step at one jump. We have got to meet this condition gradually. Remember that only about 20 percent of our economy at this time is being devoted to war purposes.

We found in writing this tax bill and raising the money to meet the obligations that we have to look at the normal economy of 75 percent of the people who are not engaged in war work. They have to live. Unless we think of these problems in writing tax bills, we will be asked the question, How are the 75 percent of the people going to meet the obligation that the 25 percent are creating? That is the thought that I have personally with respect to this tax bill. I would be willing to raise the amount very much more next year than I would be willing to raise it this year. I believe that is good philosophy.

Mr. LEAVY. Mr. Chairman, will the gentleman yield?

Mr. DUNCAN. Yes.

Mr. LEAVY. This tax bill carried for the first time, I think, a tax on outdoor advertising.

Mr. DUNCAN. I did not intend to debate that. I was seeking to confine my remarks to the individual income tax. I think some other gentlemen will discuss that, and I do not like to be diverted, though probably I can answer the question that the gentleman has in mind.

Mr. DOUGHTON. Mr. Chairman, it is understood that the gentleman from Michigan [Mr. DINGELL] will specialize in his speech on excise taxes.

Mr. DUNCAN. And I may say to the gentleman from Washington that there will be an amendment suggested to this bill which changes the situation considerably.

Mr. LEAVY. And also as to radio taxes?

Mr. DUNCAN. Not as to radio taxes.

Mr. LEAVY. Is there anything in the bill which affects newspaper advertisement?

Mr. DUNCAN. No.

Mr. LEAVY. Is there any reason for that distinction?

Mr. DUNCAN. Mr. Chairman, with all due courtesy to the gentleman, I do not want to go into a discussion of that phase of the bill.

Mr. LEAVY. It does appear to me that there is a marked discrimination between the two types of advertising.

Mr. DUNCAN. I prefer that the gentleman discuss it who has prepared that phase of it, if the gentleman does not mind. Last year, or under existing law, a man making $900 a year paid 44 cents income tax. Under the present bill he will pay $5.94. That is a considerable increase. In the $10,000 income class, last year the taxpayer paid $686—a single person—and now he will pay $1,469. That is a considerable increase. A married man with two dependents, last year paid $440, and this year he will pay $998.80. Those are pretty fair jumps for a beginning. The amount of expenditures have been discussed here many times. Of course, we knew when this bill came up that practically everybody was going to vote for it, so far as the revenue is concerned. There may be some things that some do not like, just as I do not like. Everybody will have to make a sacrifice. We are going to have to pay a lot more taxes than we have heretofore paid, but the result of these sacrifices ought to be devoted exclusively to the defense of this country.

I agree with my colleagues on both sides of the aisle that everything that is unnecessary ought to be cut off, that we ought to prune and trim down our expenditures to the absolute minimum. We are going to have to borrow a lot of the money as it is, but, Mr. Chairman, if this country is right in the theories that it is now pursuing, if we are right in building a great Army for our defense, it is just as much a problem for my grandchildren as it is my problem, because if we lose the liberties and the rights which we today enjoy, there will be nothing left for them—the old homestead will have been destroyed. Therefore, a part of it must be passed on to them. We ought to pay every dollar that we can, but in doing that, let us not destroy ourselves. Sometimes in our anxiety over the present I wonder if we do not forget the future. In our anxiety to build an Army to prepare for our defense, for which I am as strong as anyone in this House, I repeat to you that we must not forget the normal economy of our country as we go along, and we must not ruin the people. We must build this thing up gradually, as high as it can possibly go.

If we have to pay 50 percent of all of the income of this country to meet this obligation, then we must do it, but let us not place the load upon the people all at one time. You can put a man in the Army, take him out of an office and put him in the Army and put a pack on his back and start him on a 30-mile march; he probably would not last 30 minutes, and when he became exhausted, he would be likely no more good for a long time and probably not at all; but if you give him sufficient training, and harden him up, and get him ready for the task, he could perform it without undue hardship. So, I say it is the same way with this tax burden. We must meet the situation as it is and build up to it and save our normal economy and get it into such situation that we can meet this obligation.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield the gentleman 5 additional minutes.

Mr. DUNCAN. I had not expected to talk about the joint returns. When the matter first came up in the committee I thought considerably about the legal phases of it. I used to be a lawyer, at least I was a member of the bar before I came to Congress 8 years ago, but since I came here I suppose I am not; but I was concerned about the legal phases of it. After studying it considerably and listening to the arguments made by the lawyers and specialists, I changed my mind about it. Gentlemen who have discussed the legal phases of community-property States, for example, it seems to me, are missing the point. We are not attempting in any way to interfere with the property rights in those States. We are simply saying that every dollar of income in this country, so far as the Federal Government is concerned, ought to pay the same obligation. They can dispose of their property just as they do now, without any restrictions whatsoever. But when it comes to a question of meeting the Federal obligation, every dollar ought to meet the same tax obligation that every other dollar meets.

A short time ago I talked with a very good friend of mine. He is a man of considerable means. He has made a great deal of money. He was bitterly attacking this joint return. He spoke about how many securities he had transferred to his wife. I asked: "Why did you transfer them to her?" He said, "For the purpose of keeping from paying income tax on them." I said, "Do you think that is right?" He said, "Yes; I think it is right. If I can transfer my property to my wife and avoid part of the tax obligation I think it is fair." He said, "I paid the gift tax on that money." "Yes," I said, "you pay the gift tax. You had $40,000 of exemptions on which you did not have to pay the gift tax, and on all above that which you gave her you paid the gift tax, but you only paid it once. The income tax recurs every year. You are still a young man. Your wealth is increasing and that money which you transferred to your wife for the purpose of avoiding the payment of the income tax in the higher bracket will bring returns to you many, many times over the gift tax.

If that title is stricken out of this bill the figures which I have read you, the income tax which you are going to pay and which are about three times this year what you paid last year on your salary, will go at least one-third higher than that, and that will be true of every person in the country who is paying an income tax. While that happens those folks who have not been bearing their just portion of the Federal obligation will be getting away with it just as they are now. In the States of those gentlemen who divide their congressional salaries with their wives and pay on that proportion, they will not be bearing the same obligation that you and I are bearing in the States in which we live. Gentlemen who are giving away their property, and they have been doing it by millions of dollars in the past few years, will be getting away with the same thing, while in my State, 95.79 percent of the people will be paying the burden for the 4.21 percent of those who are getting away now with less income tax than they ought to be paying.

Mr. WHITTINGTON. Mr. Chairman, will the gentleman yield?

Mr. DUNCAN. I yield.

Mr. WHITTINGTON. In that connection, with respect to the tax burden, is it not also fair to say that the Federal income tax in many cases does not amount to nearly as much as the ad

valorem and other local tax bills, paid by taxpayers of the United States? I suggest that that matter ought to be kept in mind when we compare the income tax in the United States with the income tax of Great Britain and other countries.

Mr. DUNCAN. That is definitely true. A $10,000 income pays $4,600 in England and in Canada it pays $3,600. Those are comparable figures in Canada and Great Britain. They have had these same joint returns in Great Britain for 20 years.

Mr. WHITTINGTON. In that connection does the gentleman have a statement as to the comparative ad valorem taxes paid?

Mr. DUNCAN. I do not have that.

Mr. WHITTINGTON. That is what I called attention to, that in this country we pay an ad valorem tax and they do not pay it in those countries. That should be kept in mind.

Mr. DUNCAN. I do not have those figures.

[Here the gavel fell.]

Mr. TREADWAY. Mr. Chairman, I yield 20 minutes to the gentleman from Minnesota [Mr. KNUTSON].

Mr. KNUTSON. Mr. Chairman, I shall not take the full 20 minutes allotted to me because the bill has been very thoroughly covered in all of its aspects by preceding speakers. Were I to do so it would be merely repetition.

This is the fourteenth tax bill that has been sent to us since the New Deal took over and we are told that from now on we may look for a general tax bill each year. Nearly all of these tax measures were made necessary by New Deal prodigality and waste. I do not suppose that in all the history of the world there has been such an orgy of spending and collecting as we have witnessed in the last 8½ years. What I am saying now is not being said in a partisan spirit. These are facts that I feel the American people either do not know or are indifferent to. We cannot continue the present rate of spending indefinitely without bankrupting the country. I call attention to the minority report, page 76, which contains among other things an appendix in which contains the economy message sent to the Congress by Mr. Roosevelt on March 10, 1933. I can find no place in the New Deal program where they ever attempted to follow out the very sound principle laid down in that message by the President in 1933.

This administration has collected $40,000,000,000 in revenues in the last 8½ years and has spent $67,000,000,000 in the same period, leaving a deficit of $27,000,000,000. A studied effort is being made to create the impression that much of this deficit is due to our defense program. Bear in mind that to date we have spent only $5,000,000,000 of actual money under the emergency defense program, and it was this emergency which I think is the forty-second that we have had in 8½ years—or is it the forty-third? I have sort of lost track. This emergency was only declared late in 1939 after the war broke out, and the deficit up to that time was something like eighteen thousand million dollars, as I recall. Mr. Chairman, you can readily see we cannot continue along that course if we are to remain solvent. Mr. Roosevelt has spent or committed us to spend more money than all Presidents from Washington to Hoover.

In this connection I want to compliment the majority members of the Ways and Means Committee. Our distinguished chairman and many of his colleagues on the Democratic side repeatedly called the attention of the Treasury officials to the necessity for reducing expenditures to the lowest possible point consistent with national defense and efficient governmental operations. I merely mention this to show that the demand for economy comes not from the Republicans alone, but from old-fashioned Democrats as well. In fact, the demand is universal, but we do not seem to be able to get the ear of the White House.

I was told this morning we may soon look for another lease-lend bill which will again carry $7,000,000,000. I realize, of course, that Comrade Stalin must be financed. It is my information that Comrade Hopkins is now over in Moscow negotiating with the Russian Government, or should I say the proletarian government of Russia, arranging the details of the loans we are to make to that country.

Mr. JOHNSON of Indiana. Mr. Chairman, will the gentleman yield?

Mr. KNUTSON. I yield.

Mr. JOHNSON of Indiana. Does the gentleman know whether in this next lease-lend bill additional money will be included to buy more rum and more champagne glasses to assist in fighting this war for the other side?

Mr. KNUTSON. There are, of course, a lot of bubbles in this whole program. Whether they come from champagne or gas I do not know.

Mr. AUGUST H. ANDRESEN. Mr. Chairman, will the gentleman yield?

Mr. KNUTSON. I yield.

Mr. AUGUST H. ANDRESEN. The gentleman referred to loans to Russia. Would not the gentleman construe these loans more or less as gifts to these so-called allies?

Mr. KNUTSON. Anything that gets out of Uncle Sam's hands seems to sink out of sight. I do not recall any loans that have been paid back since this emergency was declared, save the payments by Finland. This is a rambling talk, but I have a number of things on my mind that I wish to discuss with you.

Mr. McLEAN. Mr. Chairman, will the gentleman yield?

Mr. KNUTSON. I yield.

Mr. McLEAN. The gentleman has been referring to the matter of emergencies. The gentleman said there had been 42 emergencies in the last 8½ years.

Mr. KNUTSON. I would not be too certain of the exact number, it may be 43 or 44.

Mr. AUGUST H. ANDRESEN. Fifty-seven.

Mr. McLEAN. Would the gentleman mind giving us a break-down of the emergency showing the various times of emergencies, classifying them by kinds?

Mr. KNUTSON. Let me suggest to the gentleman that he wait until we get 57, then we will classify them.

Mr. McLEAN. Classify them according to varieties?

Mr. KNUTSON. Fifty-seven varieties; yes.

Nearly all metals have been put on the so-called strategic or restricted list, but it is my information that as our manufacturers and exporters are being compelled to take themselves out of the foreign markets the vacancies we create are being taken over by the British. Only the other day I saw a letter from a Canadian firm to an American businessman calling his attention to the fact that it was going to be impossible for American rubber manufacturers to supply his needs in the future but that they would be glad to do so. I do not know how it comes that the British can supply the market that we are forbidden to take care of, but it looks as though they have got a pool not only on rubber but on aluminum. I am told one can buy aluminum ware over in Britain now. I understand that a while ago the administration took one of the big Clippers off the Pan-American Airways and gave it to England, and England put it into service on one of her commercial air lines.

Mr. AUGUST H. ANDRESEN. Mr. Chairman, will the gentleman yield?

Mr. KNUTSON. I yield.

Mr. AUGUST H. ANDRESEN. I have just received a list of goods that the British are offering for sale in the United States. It contains everything from hardware to textiles which they are ready to sell here in this country.

Mr. KNUTSON. The whole thing is "nutty."

Mr. TREADWAY. Mr. Chairman, will the gentleman yield?

Mr. KNUTSON. I yield.

Mr. TREADWAY. Has the gentleman received any information to the effect that steel which is on the priority list is being shipped abroad and then sold to South America by Britain? Has the gentleman any information along that line?

Mr. KNUTSON. Would the gentleman mind repeating his question?

Mr. TREADWAY. Has the gentleman any information relative to the idea that has been spread abroad that steel which is on the defense list for priority use, practically unobtainable by our manufacturing industries, is being shipped to England and from there reshipped to South America and sold to our customers in South America?

Mr. KNUTSON. My attention was called to a very interesting little article in the New York Times yesterday morning which stated that a British firm that manufactures, exports, and imports steel window casings had taken a lease on a piece of property over in New York, which would indicate to me that this concern is in position to make deliveries right along or it would not have leased this property. It was not a very big piece of property, as I recall, but it would indicate to me that Britain is shipping steel products to this country as well as to our former customers abroad.

Miss SUMNER of Illinois. Will the gentleman yield?

Mr. KNUTSON. I yield to the gentlewoman from Illinois.

Miss SUMNER of Illinois. One of my clients is an industry which has a subsidiary in England. They use steel both here and abroad. My client here cannot get enough steel to fill their current orders. They have orders up until past Christmas and they cannot fill them on account of the lack of steel, but their subsidiary in England is getting all the steel they want. They are informed that 2,000,000 tons of sheet steel were shipped there under the lease-lend bill, and they are filling all the orders, not only in England but in South America and other foreign countries, from their English subsidiary.

Mr. KNUTSON. We are doing more for Britain than we are doing for our own people. I am not surprised to learn what the gentlewoman from Illinois has just stated.

As a result of this indefensible, wasteful spending program, Congress has had to raise the limit of the national debt twice—once a year ago from $45,000,000,000 to $49,000,000,000 and during last winter we had to raise the limit of the national debt from $49,000,000,000 to $65,000,000,000. There are many authorities who say that the national debt will reach the staggering sum of $100,000,000,000 before the defense program has been completed. That it should cost us more to get ready to fight than it actually cost us to conduct the war back in 1917 is a most anomalous situation. But we should not be surprised at that.

Those of you who have been following the proceedings of the House closely, and I know all of you have, will recall that our colleague the gentleman from Michigan [Mr. ENGEL] conducted an investigation into the building of our Army cantonments. Now, the word of the gentleman from Michigan is absolutely good and I will take anything he says at 100-percent par. He stated that his investigation showed that we have spent $800,000,000 on camps, and submitted to the House indisputable evidence that of that huge sum $250,000,000 had been squandered. No wonder it is costing us so much to get ready to fight this next war that we were promised we would be kept out of. Of course, we have not been promised that lately. I do not recall that we have been promised we would be kept out of the war since election day. Of course, we are going to get into the war because several days ago Churchill said we are, and they know more about our foreign policy over at No. 10 Downing Street than we do up here on Capitol Hill. That is probably due to the fact that Downing Street has so much to say in formulating the American foreign policy. The following day Anthony Eden announced that we would help finance the restoration of Europe when the war is over.

I do not know as I care to take more of your time except to say that as tax bills go this is a pretty good bill. In fact, I am so well satisfied with it that I voted for the special rule yesterday so that the House could not emasculate it. We gave consideration to broadening the base by lowering all exemptions, but the Treasury Department recommended against it because it would bring in about 10,000,000 new returns but little additional revenue. It costs 50 cents to handle a return and if we were to add 10,000,000 returns to what is now coming in it would mean an additional expenditure of $5,000,000 and the employment of 3,500 or 4,000 deserving new dealers.

I stated a few minutes ago that this is not a bad bill. It is much less severe than it would have been had the Treasury Department had their way about it. I want to give you some comparisons. Let us take a married couple with no dependents, a family with a net income of $3,000. That family pays $30.80 under the present law. The Treasury proposal would have taxed them $151.80, but this bill only imposes a tax of $85.80. On $5,000 net incomes the present tax is $110; the Treasury would have increased that to $500; the committee fixed it at $308, nearly $200 less than the Treasury recommendation. On a $10,000 net income, and this is the item that seems to arouse more interest than any other, the present tax is $528. I am speaking now of a married man with no dependents; the Treasury Department proposed that we levy a tax of $1,628; the committee set the amount at $1,166, or a saving of nearly $500. On a $25,000 income the present law levies $3,843.40; the Treasury recommended that that amount be increased to $6,824.40; the committee set it at $6,505.40.

[Here the gavel fell.]

Mr. TREADWAY. Mr. Chairman, I yield 10 minutes to the gentleman from New York [Mr. CROWTHER].

Mr. CROWTHER. Mr. Chairman, I ask unanimous consent to read a letter from the Treasury Department.

The CHAIRMAN. Is there objection to the request of the gentleman from New York [Mr. CROWTHER]?

There was no objection.

Mr. CROWTHER. Mr. Chairman, I do not intend in this limited time to discuss the tax bill, because it has been very thoroughly explained up to this moment, and, undoubtedly, there will be many more brilliant and illuminating speeches on the subject of taxation before this general debate is ended. Some of the moot questions here will be subjected to a very considerable discussion and dissection. They will probably be put on the dissecting table and operated on, if I guess correctly the temper of the House at this time.

The gentleman from Minnesota, who preceded me, said that it is not a bad tax bill. Of course, there never was a good tax bill. There never was a tax bill that even when the committee got through with it, either the committee or the public were either happy or satisfied regarding its final requirements.

Mr. KNUTSON. Mr. Chairman, will the gentleman yield?

Mr. CROWTHER. I yield to the gentleman from Minnesota.

Mr. KNUTSON. I think my good friend will admit that this bill could have been much worse.

Mr. CROWTHER. Perhaps the gentleman is thinking of the man before the Kentucky judge on a whisky charge, for handling bad whisky. The judge said he would not consider that case at all, because, in his opinion, there was no bad whisky, some whisky was better than others.

Mr. KNUTSON. It is a much better bill as far as the general taxpayer is concerned than it would have been had we followed the recommendations of either the Treasury Department or Mr. Eccles.

Mr. CROWTHER. It does not produce quite as much money as under the Treasury recommendations, but it reached the goal set by the committee. I did not think it was enough. I thought and advocated constantly, as the gentleman recalls, that we ought to raise $5,000,000,000 in order to make something more than a gesture toward the amortization of the tremendous debt we were accumulating.

Mr. AUGUST H. ANDRESEN. Mr. Chairman, will the gentleman yield?

Mr. CROWTHER. I yield to the gentleman from Minnesota.

Mr. AUGUST H. ANDRESEN. The gentleman said there was no good tax bill. I recall three good tax bills that were passed in the twenties, bills that were all tax reductions.

Mr. CROWTHER. When you give people money instead of taking it away from them, that alters their attitude entirely. The installation of the Santa Claus motif has made this administration very popular.

I want to call attention, however, to the debt that is now facing us and that will be constantly increasing with the continuation of this defense program. I hark back for just a moment to the days of World War No. 1. At that time our national debt was $1,230,000,000. When we finished the World War we owed $26,000,000,000.

I was interested and wondered how much that debt had cost us during the intervening period, in trying to envision what might happen to us as a result of the probable $100,000,000,000 debt that is in the offing, so I tried to figure it out myself. I tried to average that debt over a period of 23 years, from 1918 to 1941, and figure an average rate of interest. When I got through figuring, having covered a dozen or more sheets of paper, the sum was so large that it staggered me. I communicated with the Treasury to see how nearly correct I was, and I have received this letter in reply:

MY DEAR MR. CROWTHER: Further reference is made to your letter of April 14, 1941, in regard to the amount of interest paid on the national debt which was incurred during the first World War.

The latest Treasury estimate of the money cost of the World War to the United States Government is that contained in the Secretary's annual report for the fiscal year ended June 30, 1934. At that time the interest on the national debt incurred as a result of the Warld War was estimated at $12,303,640.992.

I could have saved myself a great deal of figuring and work if I had known that that figure was in the 1934 report.

Continuing the letter:

For the reasons stated in my letter of April 19, it would be difficult at this time to make an estimate of the interest cost attributable to the World War debt. The obligations originally issued by the Treasury in financing the World War have lost their identity in subsequent refunding of the outstanding public debt, and, therefore, it would be necessary to adopt certain arbitrary as-

sumptions in compiling the information you desire. On the theory that no war debt has been retired since December 1930—

That is true—

when the post-war debt reached its low point and commenced to increase, the amount of the public debt at the present time which may be attributed to the World War—

That is, out of our present $50,000,000,000 debt—

would be in the neighborhood of $15,000,000,000. The annual interest on this amount at 2.6 percent, the approximate average rate of interest on the public debt since 1935, would be about $390,000,000 a year, and for the 6½ fiscal years to December 31, 1940, would be approximately $2,535,000,000, which, when added to the $12,303,640,992 mentioned above, would equal $14,838,640,992.

There is the picture. We started the last war with a national debt of $1,230,000,000. We finished it with a debt of $26,000,000,000. The Republican Party reduced that debt under our administration $11,000,000,000 in 11 years, an average of $1,000,000,000 a year. That left $15,000,000,000. So we started with a $1,000,000,000 debt and finished with a $26,000,000,000 debt, paid off $11,000,000,000 in 11 years; $15,000,000,000 of it is still attributable to the war debt and is part of our present national debt, and we paid nearly $15,000,000,000 in interest during that period.

You can just imagine that starting with a $45,000,000,000 debt, as we did in this war, and with expenditures in front of us that will bring the national debt to $100,000,000,000 or more, what the picture of the interest debt will be 23 years from today, in view of what it is 23 years after the signing of the armistice in 1918. I just call this to your attention because the figures to me are alarming.

I think perhaps people have lost sight of the fact, when we talk about the $3,500,000,000 tax bill we are considering at this time, that that is in addition to the $9,500,000,000 that we expect to get under the present law, so that we are collecting this coming year $13,000,000,000 in taxes from the American people through various types and kinds of taxes, distributed as equitably and as fairly as could be done in the judgment of the committee.

Mr. ROBSION of Kentucky. Mr. Chairman, will the gentleman yield?

Mr. CROWTHER. I yield to the gentleman from Kentucky.

Mr. ROBSION of Kentucky. I see that the gentleman is worried about this debt. I entertained such worries as that until our President said there was no cause to worry; that we owed it to ourselves.

Mr. CROWTHER. Yes; I remember that statement. Perhaps it might be classified as a bit of campaign oratory. The President, when asked about means of providing the money for the first defense expenditures, just flicked the ashes from his cigarette and told the press that was a mere detail, and that he was going to erase the "silly old dollar sign." Let me tell you, gentlemen, that on the 15th of next March Mr. Morgenthau, who does not believe that, will not erase the silly old dollar sign, and he will not take any old tires or any old brass or any old aluminum kettles for your taxes. You will lay the money right on the line for Mr. Morgenthau—and how—when you pay your income taxes.

Mr. CRAWFORD. Mr. Chairman, will the gentleman yield?

Mr. CROWTHER. I yield to the gentleman.

Mr. CRAWFORD. I would like to ask the gentleman from New York this question, if he will give us the information: Why did the Ways and Means Committee in this bill assess such low taxes—and I mean low—against excess profits of corporations?

Mr. CROWTHER. We raised all the rates 10 points and we adopted a new method of determining the excess-profits tax which considerably raises that total figure. We must look ahead. In England they gave them a 2-year average business experience and above that they take every dollar. It may get to the point where we may have to take every dollar, but right now taxation can only be carried to that point, as regards an individual or a corporation, where you are going to save them for future activity. Excessive rates discourage the use of private capital; they destroy corporate activity, which may result in unemployment. You can only go so far; and I think with $13,000,000,000 to be collected for 1942, the committee has increased the general tax burden as much as is warranted at this time. We have been advised by the President of the probable necessity of a tax bill every year. With the gradual drying up of our sources of revenue it probably means a continuous raising of rates.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield 25 minutes to the gentleman from Tennessee [Mr. COOPER].

Mr. COOPER. Mr. Chairman, it is recognized that a very essential element connected with the national-defense program is the necessity that the required revenue be provided to pay for it. Large sums of money have been appropriated for national defense and the money must be provided to pay the bill. The people must be called upon to pay more taxes to their Government to provide this required revenue.

When the Secretary of the Treasury appeared before your committee on April 24, 1941, he stated that as of that date the appropriations, authorizations, and recommendations for the national-defense program totaled $39,000,000,000, including the lease-lend appropriation. According to the estimates of the Bureau of the Budget as of June 1, 1941, this figure had increased to $43,000,000,000. It is now set at approximately $50,000,000,000. It will be seen that since last April the scope of our defense program has increased by about $11,000,000,000.

The Secretary also stated that actual expenditures for all Federal purposes for the fiscal year 1942 were then expected to be $19,000,000,000. It is now expected that the expenditures for this fiscal year will be about $22,000,000,000.

Revenue from the present law is estimated to yield about $9,400,000,000 in the fiscal year 1942. The estimate of the revenue to be provided by the pending bill is $3,529,200,000 for a full year of operations of the bill's provisions, or a total tax revenue of $12,929,200,000, or substantially $13,000,000,000 when this bill is fully operative.

Such a sum is equivalent to about 60 percent of the cost of Government, including national defense, estimated for fiscal year 1942.

As was pointed out so effectively by the chairman of the committee on yesterday, during the World War period we provided one-third of the required revenue by taxes and borrowed the other two-thirds. Now the policy has been reversed, and at the time the Secretary appeared before your committee it was then recommended that we provide sufficient money to pay for two-thirds of the expenses and borrow one-third. Additional requirements that have been made since then now make the ratio stand at 60 percent of tax revenue and 40 percent of borrowed money to pay for our national expenditures.

In recent years your committee has recommended and Congress has enacted several revenue laws designed and intended to bring our expenditures and our revenue into a closer degree of balance. If it had not been for the enormous amounts required for the national-defense program, this objective would have been accomplished, and I invite your attention to these figures.

For the fiscal year 1941 we had total expenditures of $12,710,000,000. During the fiscal year 1941 we had $6,048,000,000 for national defense, which would leave a difference of $6,662,000,000 for all other purposes for the Federal Government, and we received total receipts of $7,607,000,000. Thus it will be seen that for the fiscal year 1942, except for the enormous expenditure required for national defense, we would have had our Budget substantially in balance, or, perhaps, a little surplus.

Much has been said yesterday and today with respect to tax relief and the reduction of expenditures. I have had occasion to remark here on several occasions in the past, as well as elsewhere, that the most effective way to accomplish real tax relief is to more closely watch the appropriations made by Congress. It is very well for us to have our attention very definitely drawn to the necessity of reducing expenses when we are called upon to consider the largest tax bill in the history of our Nation. I favor economy as much as anybody could, but the important thing to bear in mind is that this is not the time to be talking about economy or saving money. The time to do that is when these authorization bills and appropriation bills come before the House for consideration.

We cannot go along as we have in the past authorizing vast expenditures, and then appropriating money, spending large sums, without providing the revenue that is necessary to pay the debt. So the important thing to remember is that as these authorizations and appropriations come along, then is the time to think about tax relief and reducing Federal expenditures. As I have said repeatedly, we should always remember that there is no way by which one dollar

can get into the Federal Treasury or one dollar can get out of the Federal Treasury except by the action of Congress. We hear some criticism of the executive branch of the Government, but after all, under our system of government, the responsibility rests right here with the Congress. So we may well pay closer attention in the future to authorizations and appropriations, realizing that that is where the money is to be saved, if it is to be saved.

The responsibility of initiating tax legislation rests with your Committee on Ways and Means. After 3 months of very strenuous effort, last Friday the Ways and Means Committee reported the pending bill, which is the revenue bill of 1941. Estimates of the revenue involved, as we have frequently heard it stated, are that this bill will produce three and a half billion dollars of additional revenue for the Federal Government. Of that amount $2,475,000,000 will come from corporations and individual income-tax payers; $152,000,000 from estate and gift taxes; and about $900,000,000 from additional excise taxes.

It is my purpose to very briefly discuss some of the provisions of the pending bill. The new corporation and individual income taxes are effective under this measure from January 1 of this year. The 10-percent defense tax is made permanent. Personal exemptions of $800 for a single person and $2,000 for married people are continued. We have had considerable discussion of the question of lowering exemptions and broadening the base. It is interesting to look into that subject, as your committee has endeavored to do. We see many suggestions in the press and hear of them elsewhere about broadening the base and lowering the exemptions. I would not especially object to some lowering of exemptions, but your committee in its wisdom felt that the exemptions should not be lowered further at this time. Let us remember that last year we reduced the exemption for a single person from $1,000 to $800 and for a married person from $2,500 to $2,000, so that now we have the lowest exemptions that we have ever had since our income-tax system began in 1913. The $2,000 for married people is as low now as it has ever been, and the $800 exemption for single people is lower than it has ever been before.

Mr. VORYS of Ohio. Mr. Chairman, will the gentleman yield?

Mr. COOPER. Yes.

Mr. VORYS of Ohio. I received today suggestions that the exemptions be taken out of the lowest brackets rather than out of the highest brackets as being the fairest way to make the exemptions amount to the same for each taxpayer. I wondered whether the committee had considered that method of equalizing the exemptions and of course raising more revenue.

Mr. COOPER. I think I may accurately state to the gentleman that your committee considered every phase of this question. Let us bear in mind in the beginning that the exemptions have always been considered what it is thought to be necessary for people to secure at least the bare necessities of life. People should have some amount that is exempt from Federal taxation. Exemptions have varied from time to time under different measures and have been fixed at different amounts. The present exemptions mean about $15 per week for a single person and $38 per week for a married person. I call attention to this very significant fact with respect to exemptions, and it is something that does not seem to be generally taken into consideration. The real effect of lowering the exemptions is simply to take that much money off of the bottom and put it on the top. Last year we lowered the exemptions for married people from $2,500 to $2,000. What was the effect of that? It simply meant that the $500 by which the exemption was reduced was added on the top of your other sources of income on your income-tax return, and was, therefore, taxed at the highest rate of tax which you pay on any source of income. That is the effect of it, and there is no way to avoid that that we have been able to figure out. Of course, some people seem to think that we should be getting more money from these people in the lower brackets, but whenever you reduce exemptions, as has been suggested, the effect is to simply take that much off of the bottom and put it on the top. You do get more revenue, but you get it from the people who are already paying the taxes, and from whom we are already receiving the bulk of revenue that the Government gets and from whom we can, by raising the tax rates, get the same revenue effect as would be accomplished by lowering exemptions. This is the procedure followed in this bill for getting the extra revenue from the individual income tax. Furthermore, by making the first dollar of surtax net income subject to surtax we have accomplished the same purpose as lowering the exemptions in adding large numbers of new taxpayers to the rolls.

Mr. KRAMER. Mr. Chairman, will the gentleman yield?

Mr. COOPER. Yes.

Mr. KRAMER. What explanation can the gentleman give with reference to the tax proposed on billboards as against magazine and other advertising?

Mr. COOPER. I hope the gentleman will withhold that question. I am talking about individual income taxes.

Mr. KRAMER. I thought the gentleman was trying to recover revenue.

Mr. COOPER. I appreciate the gentleman's question, but I hope that he will withhold it until I get to that subject.

Mr. VORYS of Ohio. Will the gentleman yield?

Mr. COOPER. I yield.

Mr. VORYS of Ohio. We have heard some discussion of the possibility of leaving exemptions as they are, but of having an arbitrary tax on those who are below that exemption.

Mr. COOPER. I get your point. Your committee considered that very carefully. What does that mean? That means that you will have two schedules of income-tax rates. You will have a schedule of rates from your present exemptions on up. Then you will have another schedule of rates from the bottom up to the limit of your present schedule. Now, suppose some person in the highest bracket of the new schedule has $1 of additional revenue, then you bring him into the other schedule of income-tax rates. There just has not been any way devised so far to work it out so that you can accomplish that purpose.

Some suggestion was made that a levy of $5 or $10 be made on everybody. That simply amounts to a Federal poll tax. That is what that is. Certainly that is not embraced within the authority of the sixteenth amendment, which authorizes the Congress to lay and collect taxes on income from whatever source derived.

That will give some indication of the extreme difficulties involved. So that your committee thought the only way it could be considered would be to lower the exemptions and broaden the base, which as I say simply amounts to that much being taken off of the bottom and placed on the top of people already paying substantial income taxes.

Another thing in that connection, last year when we lowered the exemptions, as I have previously indicated, and changed the requirement for filing returns, it resulted in nearly 8,000,000 more tax returns being filed than were received in the previous year, but of that number about 6,000,000 did not pay any tax. About 2,000,000 of the newly filed returns paid small amounts, varying from a few cents to a few dollars. It has been estimated that we received about $16,500,000 additional revenue from newly filed returns and that it cost us about $8,000,000 to collect it. We wound up with about $8,500,000 net revenue from these newly filed returns.

Some have suggested that it would be desirable to have those people included in the lower brackets, to make them tax conscious, so that they would have to file an income-tax return, and it might have some effect on demands for expenditures. But, after all, what we are considering here is a revenue bill to provide revenue for the Government. If you adopt a method whereby a great many additional income-tax returns will have to be filed and yet wind up getting only a small additional amount of revenue from newly filed returns, certainly you cannot say that that is for the purpose of raising revenue when substantially the same revenue effect can be accomplished by adjusting the tax rates.

Mr. CASEY of Massachusetts. Mr Chairman, will the gentleman yield?

Mr. COOPER. I yield.

Mr. CASEY of Massachusetts. I think when the committee lowered the base to $800 they went about as far as they possibly could, but I am interested in knowing how you arrived at the figure of $800. Did you take into consideration that figure as being the lowest amount upon which an individual could subsist, that is, pay rent, clothing, and the necessities of life?

Mr. COOPER. Not necessarily. Of course the House bill last year had one figure and the Senate bill had another figure, and in conference this was the amount agreed upon. As frequently happens, it was a matter of compromise.

With the increasing cost of living that is apparent on every hand, your committee felt that for the present at least these exemptions should be left as they are.

Miss SUMNER of Illinois. Mr. Chairman, will the gentleman yield?

Mr. COOPER. I yield to the gentlewoman from Illinois.

Miss SUMNER of Illinois. I have had complaints from taxpayers who have been paying income taxes, that the enforcement has not been well done. They say that the enforcers go out to a man making from $7,000 up, and they go around to their offices every year and go into their books thoroughly, but below that bracket, around $5,000, there are any number of people who are not paying the amount of tax they should pay. They are cheating on their income tax. It is well known that if one or two cases were brought to court and a penalty put on, many of those people would be paying taxes who are not paying today.

Mr. COOPER. That is a very fine contribution the gentlewoman from Illinois has made. Your committee looked into that feature of it. As I recall now, they told us it required 3,800 additional revenue agents to police or take care of the situation created by reason of the lowering of the exemption last year.

Miss SUMNER of Illinois. Will the gentleman yield further on that?

Mr. COOPER. Yes; I yield.

Miss SUMNER of Illinois. If I may comment, from my personal experience as a lawyer handling tax work, I have known one agent sit around my office hour after hour, and he has even asked me off the bench, when with a little head work he could have handled the matter and got on to other work.

Mr. COOPER. I have no doubt some instances of that kind may occur, but certainly your Committee on Ways and Means cannot watch every one of these internal-revenue agents throughout the country.

Miss SUMNER of Illinois. I knew you were very close to the Treasury and that is why I mentioned the matter.

Mr. COOPER. I yield to the gentleman from Kansas.

Mr. CARLSON. The gentleman from Tennessee mentioned 8,000,000 new returns that were received and I believe he said we received 2,000,000 new taxes. If I might quote from a statement by Secretary Sullivan in a report to the committee. He said:

> As a result of the act approximately 8,200,000 new returns will be filed in 1941 and there will be nearly 4,000,000 new taxpayers.

Mr. COOPER. My recollection was that the item of nearly 4,000,000 new taxpayers referred to by Mr. Sullivan included not only the newly filed returns but also returns which would have been filed but which would have been nontaxable if the exemptions had not been lowered, but I do recall that the estimate was given us that they received about $16,500,000 additional revenue from newly filed returns, and it took about $8,000,000 to collect it.

Mr. WILLIAM T. PHEIFFER. Mr. Chairman, will the gentleman yield?

Mr. COOPER. I yield.

Mr. WILLIAM T. PHEIFFER. I realize that the problems attendant on trying to tap new tax resources in the country are enormous. No doubt it was a Gargantuan task. I am wondering if we are not going to have to come eventually to meet the problem as suggested by the Treasury by starting in on the plan which has been estimated to yield $31,000,000 on a hypothetical national income of $80,000,000,000? By so doing we would be making at least a start on trying to do something we are going to have to adopt eventually into our tax system.

Mr. COOPER. I may say to the gentleman from New York I have no doubt that eventually we are going to have to lower the exemptions still further. I think we shall probably come to that. We shall probably have to come to many other things that we do not think it necessary to come to just at this time. We are raising $3,500,000,000 of revenue in this bill which was estimated by the responsible officials of the Government as being necessary. As to what we may have to do in the future I cannot foresee, and prefer to wait until we reach that point before speculating too much about it.

The committee felt that the exemptions fixed in the act of last year should be continued. With respect to indiivdual income taxes under the provisions of this bill the normal tax rate of 4 percent is continued. The 10-percent defense tax is continued. The surtax rates are increased substantially, beginning at 5 percent on the first $2,000 and graduated up, and applying to the first dollar of net income.

The present normal corporation tax rates are continued—that is, corporations, with $25,000 or less net income, pay on the schedule of rates now in existing law. On the first $5,000 the rate is 14.85 percent; on the next $15,000 the rate is 16.5; on the next $5,000 the rate is 18.7. Over $25,000 the rate is 24 percent; and these percentages I have given you include the defense tax.

The new bill imposes upon corporations a surtax of 5 percent on the first $25,000 of surtax net income, and 6 percent on the balance.

The surtax is employed as the only means of reaching income from a large volume of partially tax-exempt Federal securities now held by corporations.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield 10 additional minutes to the gentleman from Tennessee.

Mr. COOPER. I thank the gentleman from North Carolina.

The surtax method is also used with respect to individual income taxpayers for the same reason, because that is the only way you can reach the income from this large volume of partially tax-exempt Federal securities now outstanding.

Mr. COCHRAN. Mr. Chairman, will the gentleman yield?

Mr. COOPER. I yield.

Mr. COCHRAN. In arriving at the amount this bill will raise, does the gentleman base it upon the amount that was paid last year, or is the gentleman anticipating the income of individuals for the present calendar year?

Mr. COOPER. The estimates on the yield of the bill were provided by the Treasury Department and are based upon the tax bases used in preparing the latest official Budget estimates for the revenues of the Federal Government in the current year. As is stated in the table of estimates on page 3 of your committee report on the bill:

> The estimates for corporation and individual income taxes and the gift tax are based on income levels estimated for calendar year 1941; all other estimates are based on income levels estimated for fiscal year 1942.

Mr. COCHRAN. If the gentleman will yield further, the Committee on Ways and Means has automatically increased the net income of millions of our citizens by providing that for surtax purposes only, as I understand it, the committee is requiring the individual to include in his income, as income, interest upon tax-exempt Government bonds, although the committee cannot apply the normal tax rates against the income from such securities. Am I correct?

Mr. COOPER. For surtax purposes. The gentleman is correct.

Mr. COCHRAN. And in that way we are getting at these people who have had their money invested solely in Government securities—some, of course, for the purpose of escaping taxes.

Mr. COOPER. The committee has gone just as far as it could go in this bill in reaching that situation.

Mr. ALLEN of Illinois. Mr. Chairman, will the gentleman yield?

Mr. COOPER. I yield.

Mr. ALLEN of Illinois. Referring to the retail excise taxes on jewelry and cosmetics——

Mr. COOPER. I hope the gentleman will withhold that for the moment until I finish with the income-tax phase of the discussion.

Mr. ALLEN of Illinois. But the gentleman's time is about to expire.

Mr. COOPER. I hope the gentleman will let me proceed for a moment.

Mr. WHITTINGTON. Mr. Chairman, will the gentleman yield?

Mr. COOPER. I yield.

Mr. WHITTINGTON. If I understand the report of the committee, if the provision requiring joint returns by husband and wife is eliminated from this bill it is the view of the committee that it would be necessary to levy taxes of approximately an additional 100 percent on those whose income lies between $2,500 and $4,000, and by about 33⅓ percent on those from $5,000 to $12,000.

Mr. COOPER. Something like that might be necessary. In other words, it is estimated that the provision requiring mandatory joint returns for husband and wife living together will produce about $300,000,000 additional revenue. If this is eliminated obviously the rate must be increased in the brackets all the way up to supply the loss of revenue.

Mr. WHITTINGTON. But the fact remains, as stated on page 17 of the report, that the principal increase will be in the lower brackets.

Mr. COOPER. Undoubtedly that would probably result on a percentage of increase basis. Now I should like to proceed with my discussion.

Mr. BUCK. Mr. Chairman, will the gentleman yield?

Mr. COOPER. I am sorry, I cannot yield right now.

The new tax bill imposes upon corporations a surtax, as I said, of 5 percent on the first $25,000 of surtax net income and 6 percent on the balance. For the excess-profits tax which applies only to corporations the present optional method of average earnings or invested capital is continued. I say very frankly that personally I favored a much more effective excess profits than is provided. I felt very strongly that with this enormous amount of money now being spent by the Federal Government and the evidence on every hand being apparent that everybody is going to be making more money during this period, and corporations are going to have greatly increased income by reason of the Federal Government spending this forty or fifty billion dollars, now is the proper time to get more revenue into the Treasury through the application of an excess-profits tax law. I favored this, but the majority of the committee in their wisdom felt that the present optional method should be continued. Of course, I only had 1 vote out of 25. In that connection I would like to say that the President and the Treasury Department made such a suggestion.

We had other suggestions presented to us, and I would especially like to invite attention to the recommendation of the American Farm Bureau Federation on this particular point, which appears in the statement of Mr. Ed. O'Neal, president of that organization, at the hearing. This is the resolution adopted at the Baltimore convention of the American Farm Bureau Federation in December 1940, with respect to Federal taxation:

> The national-defense program is placing new and greatly increased burdens upon the Federal Budget In affirmation of the policies set forward by the board of directors, we support higher taxes to meet a proper share of this added expenditure. We will oppose efforts to raise this revenue from excise or consumption taxes. The corporate- and personal-income tax must be the main sources of revenue and the excess-profits tax should be tightened and maximum rates of profit established above which all revenue will be considered an excess profit and be taxable as such. Only by such tax policies can profiteering be forestalled and the defense program financed on the basis of ability to pay.

Mr. CRAWFORD. Will the gentleman yield?

Mr. COOPER. I yield to the gentleman from Michigan.

Mr. CRAWFORD. Would it be in order to go so far as to indicate to industry at this time that there is a likelihood of additional excess-profits taxes being assessed at some subsequent date prior to December 31, 1941, and retroactive to January 1, 1941? Would the gentleman go that far at this time?

Mr. COOPER. I am not prepared to state definitely just now what we should do in the future. I stated very frankly that I favored it now.

Mr. CRAWFORD. I agree with the gentleman 100 percent on that. I think we should have made it retroactive.

Mr. COOPER. When we have this large number of corporations in this country that go along making 30, 40, 50, some of them as high as 100 percent, I think that is the fairest place for us to approach for additional revenue during this great period of national emergency.

Mr. CRAWFORD. The gentleman would say it would not only be fair but if the units of industry find themselves in that position from a managerial standpoint, it will keep those particular industries out of bogholes later on?

Mr. COOPER. It comes back to the old question of trying to pay our debts while we are making money and while we have the income, or postponing the day until our income falls off and we find ourselves in more difficult times. It is like the old saying, some people think they ought to make debts in good times and pay them in hard times.

Mr. VOORHIS of California. Will the gentleman yield?

Mr. COOPER. I yield to the gentleman from California.

Mr. VOORHIS of California. I think the gentleman knows that I thoroughly agree with what he says about the excess-profits tax proposition. There is another argument that is possible, namely, the disparity between certain small business and some of those getting the defense work.

Mr. COOPER. That is true.

Mr. VOORHIS of California. May I ask the question, Why would it not be possible, even though we could not reach beyond the average earning method of computing excess-profits taxes, to impose a ceiling on the percentage or capital plan?

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield the gentleman 5 additional minutes.

Mr. COOPER. Of course, that could be done. Under the average-earnings plan you are allowed 95 percent of what was made during the base period from 1936 to 1939. Under the invested-capital method you are allowed 8 percent on the first $5,000,000 of invested capital and 7 percent on the remainder. Any variation of those figures could be made that Congress would think proper.

Mr. VOORHIS of California. Is not the great loophole the fact there are certain corporations fortunately situated for some reason whose earnings in the base period were very substantial and by using the average-earnings plan does not become effective until their earnings become very substantial indeed?

Mr. COOPER. That is very true. The present excess-profits tax rates are increased by 10 percentage points in each bracket, so that instead of ranging from 25 to 50 percent, as is true of the present law, they will range from 35 to 60 percent.

There is also an important change in the computation of excess-profits taxes. Under the present law you deduct the normal corporation tax before you determine the amount of income subject to the excess-profits tax. This is changed so that you compute the excess-profits tax before the deduction for the normal tax. So that you apply the higher tax to the higher or greater amount. For example, a corporation determines the amount of its net income; then from that you subtract the excess-profits tax credit, either arrived at by the average-earning plan or the invested-capital plan. Of course, for the average-earning plan, it is 95 percent of the amount during the base period from 1936 to 1939, inclusive.

Under the invested-capital plan it is 8 percent of the first $5,000,000 of invested capital and 7 percent on the remainder. Whichever method a corporation desires to use to figure its excess-profits credit, the amount arrived at is taken off the corporation net income. Then you apply the $5,000 specific exemption that is given to all corporations. Then on the balance you figure the excess-profits tax according to these rates I have given you. Then on the balance you figure the corporation's normal tax and surtax. Of course, the sum of those items determines the amount that the corporation is to pay.

On the estate and gift taxes, the present exemptions of $40,000 are continued. The rates are increased so as to provide $152,000,000 of additional revenue.

With respect to excise taxes, the rates on certain existing excise taxes are increased and certain new excise taxes are imposed, so as to provide $900,000,000 additional revenue.

May I point out this, which I believe to be important, that with the new excise taxes that are provided in this bill the ratio of revenue provided from excise taxes will not be as great in the future as it is at the present; in other words, you are now receiving a greater ratio of revenue from excise taxes with relation to other taxes than you will be receiving after the enactment of this bill.

Although this bill provides $900,000,000 additional revenue from excise taxes, it will be remembered that we are providing $2,475,000,000 additional revenue from corporation and individual income taxes and $152,000,000 additional revenue from estate and gift taxes.

With respect to individual income taxpayers, the new taxes mean that people with a net income up to about $15,000 a year will have to pay double or more the amount of taxes they are paying now.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield 5 additional minutes to the gentleman from Tennessee.

Mr. COOPER. People with net income up to $50,000 a year will pay about 40 percent more. People with a net income up to $100,000 a year will pay about 23 percent more.

Mr. ALLEN of Illinois. Mr. Chairman, will the gentleman yield?

Mr. COOPER. I yield to the gentleman from Illinois.

Mr. ALLEN of Illinois. The gentleman a few moments ago said that when we lowered the base, although we received but $12,000,000 extra it cost $8,000,000 to collect the tax.

Mr. COOPER. That is my recollection of the figures given by the Treasury Department.

Mr. ALLEN of Illinois. The gentleman also stated that it took about 3,900 investigators to collect the tax.

Referring to the retailers' excise taxes on jewelry and cosmetics, where a retail tax of 10 percent has been imposed, that naturally would require many more investigators than if you imposed a manufacturers' and importers' tax.

For the gentleman's information, I have received many calls from Chicago from reliable jewelry manufacturers and retailers. They believe that of the 250,000 fly-by-night jewelry and cosmetic concerns which will have to pay a retailer's tax, there will be many unreliable concerns that will be ducking the tax. The same principle would be true as is true in regard to the manufacturers' tax on whisky or beer. You pay a manufacturers' tax there. You would not for a moment put a retailers' tax on the various taverns in Chicago or New York City, because they also have fly-by-night operators.

Mr. COOPER. I believe I get the gentleman's point. What would the gentleman propose, that the jewelry tax be changed to a manufacturers' excise tax?

Mr. ALLEN of Illinois. Correct.

Mr. COOPER. Your committee considered that. I believe if the gentleman will look at the testimony given before your committee by Mr. Niemeyer, representing the jewelry industry, you will find that they very strongly favored a retail tax rather than a manufacturers' excise tax.

Mr. ALLEN of Illinois. Does not the gentleman admit that it will cost much more to have 250,000 concerns send in returns every month, which would amount to millions of returns? Would not the tax revenue be much less under this plan, in view of the additional expenditure? And after all, did not the gentleman say that this bill is a revenue bill; that its purpose is to raise money?

Mr. COOPER. That is correct; there is no doubt about that.

Mr. KRAMER. Mr. Chairman, will the gentleman yield?

Mr. COOPER. I yield to the gentleman from California.

Mr. KRAMER. I should like to have the expert of our Committee on Ways and Means give me an explanation as to why advertising agencies are not taxed in the same manner that billboards and radios are taxed.

Mr. COOPER. I do not know that I could satisfactorily answer the gentleman. Your committee looked into all the sources of revenue that it could look to. A majority of them decided that the tax on billboards included in the bill was fair and equitable and would produce, as I recall, about $7,000,000 of revenue. A majority of them voted to impose the tax. There is a committee amendment to be offered on this item.

Mr. KRAMER. I am not objecting to the tax on billboards; I am inquiring why the other advertising agencies are left out of the picture.

Mr. COOPER. That would get into the field of newspapers, magazines, and various other avenues of advertising. The committee just did not reach into those fields at this time.

Mr. KRAMER. If they are looking for revenue, that is the place to get it. There is a great deal more revenue in newspapers and magazines than there is in billboard advertising.

Mr. COOPER. If the gentleman wants to advocate a tax on newspapers, that is his privilege, of course.

Mr. KRAMER. And magazines, why were they exempted?

Mr. COOPER. There is no exemption at all.

Mr. KRAMER. They were eliminated.

Mr. COOPER. That tax was just not levied like thousands of other items were not included.

Mr. KRAMER. Now as to another tax, I spoke to the gentleman on several occasions about a tax on liquor license.

Mr. COOPER. Yes, I recall the gentleman's interest in that. We are raising the liquor tax under this bill $1 a gallon, and it was thought that for the present that was as high as it should go and as much additional tax as should be placed on the liquor industry at this time. That was the view of the majority of the committee. Certainly we may be called upon for additional revenue in the future and I have no doubt that source will be considered again.

[Here the gavel fell.]

Mr. CARLSON. Mr. Chairman, I yield 20 minutes to the gentleman from Ohio [Mr. JENKINS].

Mr. JENKINS of Ohio. Mr. Chairman, I shall expect to use a few charts in my discussion and with those charts I hope to make my remarks as interesting as possible and also instructive. It may be that I am assuming more than I will be able to accomplish. Before I begin the discussion from that standpoint I want, if I may, to stress just one thought. In the consideration of this tax bill so far you have heard some very learned discussions. They have been very interesting and very exhaustive, but here is one thought I would like to leave with you. In this tax bill there are three new kinds of taxes, and let me tell you what they are.

The first one is that this tax which proposes to compel joint returns by husband and wife. You have heard that discussed a great deal and I shall not attempt to discuss it at this time. That is a new kind of tax. We have never had that kind of tax before.

There is another kind of tax that is new. That is the use tax on automobiles. We are levying a tax of $5 on every automobile in the United States. There are about 30,000,000 of them. That is going to apply just the same to the fine limousine as to the little Ford. It is just a universal $5 tax. They call it a use tax. This is the first time that kind of tax has ever been levied in the country, with probably one or two exceptions and they were not clear-cut to the issue as this one is. We are going to charge everybody $5 that has and operates an instrumentality that we call an automobile. In passing this use tax we invade the field of the State, for it is simply a license-plate tax. Automobiles will then carry a State tag and a Federal tag.

Here is another new kind of tax that I have never seen before and I do not like it. And here is where it comes from. It came before our committee from Mr. Leon Henderson. Mr. Henderson came before the committee, and I am not saying this in criticism of him at all, but he came before the committee and said that we must curtail the consumption or the use of iron and steel. To do that he proposed to increase the tax on every new automobile in the country until it would be 20 percent of the cost price. This would be a tremendous increase in the tax on automobiles. And with what purpose in mind? With the purpose of keeping many of the automobiles off the roads through taxation. Never was that tried before. I am glad to say the committee did not accept that theory as far as automobiles are concerned, but they did accept it with respect to some other commodities.

For instance, here is an illustration and a striking illustration. This bill levies a tax on business and store machines. The bill then enumerates about 50 articles, all of which are made from steel. Included are adding machines, check-writing machines, typewriters, and even down to pencil sharpeners. I say that is a fallacious philosophy of taxation and is a matter that should be controlled by priorities absolutely, and not by taxation. Those of you who are tax experts want to be on the lookout for this new theory. It is insidious and it is something that if extended might work disaster. This is a fantastic idea, primarily, of one man who wants to control distribution of steel through taxation.

Mr. KNUTSON. Mr. Chairman, will the gentleman yield?

Mr. JENKINS of Ohio. I gladly yield to my friend the gentleman from Minnesota.

Mr. KNUTSON. The gentleman states it was proposed to make the automobile tax so high that it would drive the cars off the road. At the rate we are spending money it will not be long before the cars are driven off the road without any tax.

Mr. JENKINS of Ohio. Well, there is something in that, too.

Mr. COOPER. Mr. Chairman, will the gentleman yield?

Mr. JENKINS of Ohio. I yield to the gentleman from Tennessee.

Mr. COOPER. I am sure the gentleman, upon reflection, will recall that the bill includes a tax on office machines alone. There was a suggestion offered to also tax metal furniture, but the committee did not adopt that.

Mr. JENKINS of Ohio. That is right, but the theory is the same. The only reason the tax was laid on metal equipment in offices was to curtail the production of it in order to encourage the consumption of steel for national defense, which is absolutely too far-fetched to be reasonable. It is a dangerous step in taxation to seek to control the distribution of a great product such as steel by levying a tax large enough on certain articles to virtually drive them from the market.

I shall now be glad to take up this chart with you. In this connection I will say that these charts are all of my own make, and I will at the proper time ask leave to insert them in the RECORD. This first

chart I shall insert at this point. The first chart, of course, explains itself.

Where are we going to get the money? (*Mr. Rich*)

Corporations	$1,345,200,000
Individual income tax	1,152,000,000
Estate and gift taxes	151,900,000
Manufacturers and retailers excise taxes and miscellaneous excise taxes	880,100,000
Total	3,529,200,000

You will see that I give credit to the gentleman from Pennsylvania [Mr. RICH] for that laconic inquiry at the top. That inquiry has gone all over the country. People all over the country know of the efforts of the gentleman from Pennsylvania [Mr. RICH] toward national economy. Almost every day he reminds this body of the terrible extravagances of government, and ends his remarks with the inquiry: "Where are you going to get the money?" The first line shows corporations will pay a tax of $1,345,200,000 under this bill. The income tax paid by the individuals will amount to $1,152,000,000. The estate tax will amount to $151,900,000. The manufacturer and miscellaneous taxes will pay $880,100,000. These all add up to $3,529,200,000.

Let us now get to something that is a little more interesting, more important.

I shall insert this second chart in the RECORD at this point:

Computation of income tax on married man with 2 children

Salary $10,000, other income $3,000, total		$13,000.00
Deductions (interest, taxes, etc.)		700.00
Net income		12,300.00
Normal tax:		
Net income		12,300.00
Personal exemptions	$2,800.00	
Earned income, credit on $10,000	1,000.00	
		3,800.00
Balance subject to normal tax		8,500.00
Normal tax, at 4 percent		340.00
Surtax:		
Net income		12,300.00
Personal exemption		2,800.00
Balance subject to surtax		9,500.00
Surtax (5 to 19 percent):		
$2,000 at 5 percent		100.00
$2,000 at 8 percent		160.00
$2,000 at 11 percent		220.00
$2,000 at 15 percent		300.00
$1,500 at 19 percent		285.00
		1,065.00
Normal tax		340.00
Surtax		1,065.00
		1,405.00
Defense tax (10 percent)		140.50
Total tax		1,545.50
New tax		1,545.50
Present tax		726.00
Increase		819.50

I want in this chart, if I may, to impress one thought, and that is this: I do not want you to worry about the correctness of these figures, while I think they are all accurate. What I want to do is to show you that in the computation of personal income tax there are two bases that one should always keep in mind. You have to figure on your base down here, the base of the normal tax, and also the base of the surtax, and if you have those freely in your mind, you have the personal income tax pretty well mastered, because you can turn to the law to get the extension of amounts necessary. Let us discuss this chart for a minute. Here is a figure at the top that is pretty familiar to Congressmen—$10,000 a year. Let us suppose the Congressman has an income outside of that of $3,000. That makes $13,000. In these figures I have assumed certain deductions of $700, which leaves a net income of $12,300. Let us go over here to this left-hand side to find the normal tax base. This is where you are going to start your 4-percent tax. Here it is, $12,300. If this man is married and has two children, he has an exemption of $2,800 and is entitled to this $1,000 as an income credit. That is 10 percent of his salary. That applies on the salary but not to the other income. That makes a total exemption of $3,800, and leaves him $8,500, for what? That is the normal tax base. That 4 percent runs on clear through his whole income, whether his income is $8,500, or $35,000, or $850,000. This where I point is the normal tax—in this case $340. Now let us look on the other side of this chart at the surtaxes. We take the same net income—$12,300. For surtax purposes he will have the same personal exemption, except that the only difference is that he is not allowed this $1,000 that is allowed in computing the normal tax. I hope the time will come when these tax experts will change this so that the normal and surtax shall start on the same base at least. If they want the surtax to start at a higher bracket, that can be done.

This $9,500 is the base for the surtax purposes. Under the present law the surtax starts at $4,000. You had a $4,000 exemption from this base. Under this new bill the surtax starts right there with the $9,500. It starts with 5 percent on the first $2,000, and that is $100. The next $2,000, at 8 percent, $160, and so on up until it totals $1,065; that is your surtax. To this you add the $340 normal tax and you have the total of $1,405. To this $1,405 we add the 10-percent defense tax which is $140.50, and you have a total of $1,545.50. This is the total tax for the man in those circumstances under the new law. Last year, under the present law, it would amount to $726, and here is what you Congressmen with two children will pay in addition to what you paid last year, $819.50.

At this point I shall insert chart No. 3. This next computation concerns the tax on corporations. It is rather complicated, and is not an easy matter to follow. I am going to make some assumptions. There is one thing that I would like you to remember, in the computation of taxes on corporations under this new law. It is different from the present law. Very much different. In the final computation there is a tremendous difference in the amount of tax.

New method of computing excess-profits tax

OLD SYSTEM BUT WITH NEW RATES

Net income		$150,000
Normal tax, 24 percent	$36,000	
Surtax: 5 percent first $25,000; 6 percent on balance	8,750	44,750
Balance		105,250
(Net income for excess profits purposes.)		
Assumed excess profits credit, including $5,000 specific exemption)		80,000
Excess profits		25,250
Excess profits tax:		
35 percent on $20,000	$7,000	
40 percent on $5,250	2,100	
		9,100
Plus normal and surtax		44,750
Total tax		53,850

NEW SYSTEM

Net income	150,000
Assumed excess-profits credit	80,000
(Including $5,000 specific exemption.)	
Amount subject to excess-profits tax	70,000
Excess-profits tax:	
$20,000 at 35 percent	7,000
$30,000 at 40 percent	12,000
$20,000 at 45 percent	9,000
	28,000
Net income	150,000
Less excess-profits tax	28,000
Balance subject to income tax	122,000
Normal tax 24 percent	29,280
Surtax 5 and 6 percent	7,070
	36,350
Plus excess-profits tax	28,000
Total tax	64,350

Increase tax: $64,350 − $53,850 = $10,500.

In this instance the difference is $10,500 more under the new law. This difference arises from a different plan of computation. It is a fine manipulation that will produce millions of dollars in additional taxes. Let us consider this together. Here is a corporation that has a net income of $150,000. Last year, you will remember, this Congress provided a change in the method of computing a tax-exemption base for corporations. We provided that corporations should have the privilege of electing whether they would compute this base upon what was termed the invested-capital base, or upon what was termed the average-earnings base.

In the hearings on this bill for consideration here the Treasury desired a return to the one-base system. The Treasury desired that all corporations should use the invested-capital method. The committee, however, regardless of politics, stood out for the present plan with the privilege of an election. I think that all over the country the action of the committee has been approved.

In this case I shall assume this net income is $150,000. The normal tax on that corporation is 24 percent. The nor-

mal tax, 24 percent, produces $36,000. This, with a surtax of 5 percent on the first $25,000 and 6 percent of the balance makes the total surtax tax of $8,750. The total normal tax plus the surtax is $44,750. Deducting $44,500 from $150,000, we have a balance of $105,250, net balance for excess-profits purposes.

I am assuming an excess-profits credit of $80,000. I use this same figure in both compilations. That leaves for excess-profits taxes $25 250. Let us take $25,250. The excess-tax rate is 35 percent on the first $25,000 and 40 percent on the balance, or a total of $9,100 excess-profits tax. To this add the normal tax of $44,750, and you have $53,850. This is the total tax if figured under the plan of the present law as compared with the rates of the new law.

Let us see how the new system, if computed works. You start with $150,000 and you take off the $80,000, which leaves $70,000. Now, this is where the different plan comes in. The excess-profits tax is on $70,000. The amount the corporation pays under the new plan is $28,000 as against $9,100 on this side. Deducting this $28 000 we have $122,000 for normal-tax purposes. I figure the straight normal tax 24 percent and the surtaxes that go together with the normal tax, and I get a total of $36,500. This with the $28,000 excess-profits tax we have a total tax of $64,350 which is an increase of $10,500. There is a corporation under the new system that will pay $10,500 more than it would under the other computation. At this point I wish to insert chart No. 4. This chart illustrates how this provision requiring joint returns by husband and wife works. I shall explain this if I have time. It practically explains itself.

Compulsory joint returns of husband and wife

Husband earns $7,000. Wife earns $3,000. Total, $10,000.

Separate returns under new rates:	
Tax on husband's $7,000	$596.20
Tax on wife's $3,000	316.80
Total	913.00
Tax on combined income of $10,000	1,166.00

Husband's liability: $596 20 : $913 :: $762 : $1,166.

Wife's liability: $316.80 : $913 :: $404 : $1,166.

$1,166 − $913 = $253 increase.

Husband's increase	165.80
Wife's increase	87.20
Total	253.00

Mr. Chairman, how much time have I remaining?

The CHAIRMAN. The gentleman has 3 minutes remaining.

Mr. TREADWAY. Mr. Chairman, I yield the gentleman 10 additional minutes.

Mr. JENKINS of Ohio. I thank the gentleman.

In connection with the computation of this tax I want to just take a minute of your time to discuss this matter of joint return of husband and wife. I was one member of the committee who opposed it. I did not oppose it for the same reason that some Members have indicated. I did not oppose it on the ground that it was going to cause any divorces or that it would work any incompatibility in domestic felicities in the different communities. That argument did not appeal to me. I based my opinion on a decision of the Supreme Court. The Court has only spoken once on this subject and no other court has spoken decisively but the Supreme Court. The Supreme Court has spoken decisively and it has never been modified or repealed. It stands today as the decision of the highest Court in the land.

What does this power to tax incomes spring from? It comes from the sixteenth amendment to the Constitution. The sixteenth amendment reads as follows: "The Congress shall have power to lay and collect taxes on incomes, from whatever source derived." Up until 1913, when the sixteenth amendment was adopted, this Congress could not levy an income tax on anybody. Why? Because it did not have the power. The power was in the people. It was necessary that the people give the Congress that right through a constitutional amendment. This amendment said in most simple language the Congress shall have the right to levy a tax on income, from whatever source derived. Now, Congress may levy a tax on income. Let me give you a crude illustration. Here are my five fingers [holding up hand]. Each finger represents a person—one, two, three, four, five. You do not know whether these five are men or women. You do not know whether they are related or what States they come from. These five people have the same income. They have exactly the same income. This constitutional amendment deals with that income, and nothing else. It does not deal with marital relationships. It gives no concern to how many children they may have. It deals only with income. That is all. Now, one step further: The Constitution further says that all taxes must be uniform, and so forth. The Constitution says further you cannot take money from one person and give it to another except by due process of law. You cannot do it. Let us take these five people. You do not know where they live nor who they are. They all make the same money——

Mr. DISNEY. Mr. Chairman, will the gentleman yield?

Mr. JENKINS of Ohio. In just a minute. They all earn the same money. They should all pay the same tax. If two of them join together by marriage they still have the same income. They have joined together for the purpose of raising a family and establishing a home, the bulwark of American life. They have joined together for social reasons; they have entered into wedlock, which is an institution that has been sanctioned by all people in all generations. They have not done that for taxation purposes. Their income remains exactly the same. Now, what can Congress do about it? It must continue to tax these people on their income regardless of their social conditions. We can say to those two people, "Yes; if you marry we will give you greater exemption"; but we cannot levy a different tax on them. Because they married we cannot say to one of them, "You shall pay the taxes of the other."

Now, let me proceed to illustrate. If the gentleman from Oklahoma wants to ask me a question I will yield at this time.

Mr. DISNEY. The gentleman does not mean to say that under the sixteenth amendment we cannot classify taxpayers?

Mr. JENKINS of Ohio. I do absolutely mean to say you cannot classify them so that one in the same class does not pay the same as another. Certainly you can say you will tax one who earns $1,000 more than another who earns $10,000.

You cannot classify a man in California against a man in Maine who makes the same money. That is what I mean.

Mr. DISNEY. The gentleman does not mean to imply that the wife pays any of the husband's tax bill under this bill, does he?

Mr. JENKINS of Ohio. Yes. Each pays more than others having the same income. I mean this, as the gentleman will see when I get through with this little computation, I mean that both will pay more taxes, because under this bill you try to do something the Constitution does not allow you to do; and my authority for this statement is the decision of the Supreme Court of the United States on the exact subject.

Mr. DISNEY. And that case did not involve Federal taxes.

Mr. JENKINS of Ohio. It involves income taxes. If it holds a State income tax invalid which levies an income tax that compels one to pay for another because it violates that provision of the Constitution that prohibits the taxing of property except by due process of law, so much more would it hold a Federal income-tax law invalid. Read the Wisconsin case which holds directly in point.

Mr. DISNEY. It did not involve Federal taxes.

Mr. JENKINS of Ohio. This decision is in point and never has been revised or modified.

Mr. DISNEY. The gentleman knows that case involved State taxes.

Mr. JENKINS of Ohio. I will answer the gentleman. That decision holds as I have indicated.

Mr. DISNEY. And does not the gentleman know that in the Hooper case the Court held that the husband is liable for the taxes of the wife?

Mr. JENKINS of Ohio. No; that case does not so hold. That makes no difference in this case at all. In that case, where the State had the authority to levy a tax, the Supreme Court said that the State could not make one person pay for another for the reason that it was contrary to the Constitution of the United States. It was violative of the Constitution of the United States, not the constitution of the State. Now, if the Supreme Court of the United States has decided that a State cannot do it, and the State had full authority over this subject until the people granted the power to the Federal Government by reason of this constitutional amendment, then most assuredly Congress cannot do it.

Mr. GWYNNE. Mr. Chairman, will the gentleman yield?

Mr. JENKINS of Ohio. I yield.

Mr. GWYNNE. Has not the weight of the authority cited by the gentleman

as a precedent been whittled away by subsequent decisions of the Supreme Court?

Mr. JENKINS of Ohio. No; and I will tell the gentleman why. That is a principle that has been laid down. These other decisions all involve some collateral facts. This principle that you cannot tax one's property for another person's is fundamental. I know the arguments advanced in the collateral cases they cite. They cite a lot of cases, but the principle has been laid down affirmatively that you cannot take one man's money and use it to pay another man's taxes. That is what this decision provides. Let us turn to this table of figures and see what the committee does.

Let us see what happens when they are compelled to file separate returns. Under the new rates—not last year's rates—under the rates in this bill the husband would pay $596.20. He will take the full $2,000 exemption. I give him full exemption, and the wife does not get any exemption. She pays on her straight $3,000. That makes $316. Together they add up to $913. How much do they pay when they file a joint return? You make them pay $1,166 instead of $913. So you are taking $253 from somebody and giving it to somebody else.

Mr. DOUGHTON. Mr. Chairman, will the gentleman yield?

Mr. JENKINS of Ohio. Yes; I am glad to yield to my distinguished chairman.

Mr. DOUGHTON. Does the gentleman think it is fair procedure for a man to give half his own individual income to somebody else to avoid taxes?

Mr. JENKINS of Ohio. No; that is the trouble with this whole program.

Mr. DOUGHTON. That is exactly the trouble.

Mr. JENKINS of Ohio. The gentleman is absolutely right in that respect. Here is the argument they make: That somebody gets a little advantage. They stand up here and say, "Why, it is not fair; somebody gets a little advantage." You cannot take any category of taxation but what somebody gets an advantage. For instance, here is a man, a poor consumptive who works as hard as he can to get along, struggles along and makes $5,000 a year, yet he has to pay the same taxes as the big stalwart fellow who goes about enjoying life to the utmost, and so on, and so forth. If you would tax these strictly on their ability to pay you would consider the doctor bill of the sick man. But you do not do it. That is the way everything in life goes. The law cannot equalize everything. But the Constitution says you have no right to levy taxes on anybody's income except under the provisions of the sixteenth amendment to the Constitution. I agree with my chairman, that the instance he cited was that of taking an unfair advantage. It is glaring. But that is not the question here. If you adopt this change it will not solve all the inequities.

Mr. DOUGHTON. The gentleman agrees there are glaring defects, but he does not want to help correct them.

Mr. JENKINS of Ohio. Not in violation of the Constitution; no, sir; and I will state why.

Mr. DOUGHTON. That is where we get apart.

Mr. JENKINS of Ohio. All right, Mr. Chairman. The gentleman and I go along together pretty nearly all the time, and all the time as far as friendship is concerned, but here is where we part on this proposition if we have to, on how to control an inequality. It can be controlled just as other inequalities are controlled, by exemptions. That is the way it can be done if you want to work this out. Just say we will not give a married man any exemption.

Mr. DOUGHTON. That would not get at the root of the evil.

Mr. KNUTSON. Mr. Chairman, will the gentleman yield?

Mr. JENKINS of Ohio. I yield.

Mr. KNUTSON. Carrying the argument of the gentleman from Ohio a little further, that the husband and wife are two separate units, then why give either a larger exemption than we give unmarried people?

Mr. JENKINS of Ohio. The gentleman has put his finger on the point there. If you do not want to do it one way just do it the other. If you do not want to give that exemption, say so, but society says there ought to be a compliment paid, financially and in every other way, to two people who join up. My good friend has never joined up. Oh, what he has missed by not being joined up. He ought to join up. I would gladly recommend him to many fine girls I know.

Mr. KNUTSON. Give me a little time. I am young yet. May I say to the gentleman that taxation should be levied in accordance with the ability to pay.

Mr. JENKINS of Ohio. Well, that is all right. I have just cited an illustration on that point.

Mr. KNUTSON. And carrying the gentleman's argument a little further, he might say we should not tax Henry Ford any more than John Smith down the street because they are both American citizens. I am not advancing that as an argument of my own. I am using the gentleman's argument. I am carrying it to its logical conclusion.

Mr. JENKINS of Ohio. That does not do the gentleman credit. I notice the gentleman running away from it already.

Mr. KNUTSON. No. I will stay.

Mr. JENKINS of Ohio. I am glad he is coming back. May I say that in these United States of America we have done a lot of wonderful things. One of the most wonderful things we did, outside of freeing the slaves, was to free women. How brutal it was, how barbaric it was, for any man to consider a woman his property. Where is there a man here who feels himself good enough to take a woman as his wife, then say, "She belongs to me, all her possessions belong to me; she is my chattel property." That is the way it used to be.

What happened in this country? Now, you may criticize the law, but the law is majestic, the law is powerful, the law is the dignity, the strength, and the glory of the Republic. We provided by law so that in these States one by one the women were freed by legislation. What did we say to her? I ask the gentleman from Minnesota and the gentleman from North Carolina, what did we say? We said that a woman can go into the same classifications as the men. She and her property and her income are hers, absolutely free from the ownership or control of anybody, including her husband.

Mr. DOUGHTON. Will the gentleman yield?

Mr. JENKINS of Ohio. I yield to the gentleman.

Mr. DOUGHTON. The gentleman talks about freeing women, and I am as much for the freedom of women as is the gentleman, but does the gentleman think that a woman is being enslaved by being put on the same basis as her husband?

Mr. JENKINS of Ohio. No. The gentleman misses the point.

Mr. DOUGHTON. That is all we propose to do under this law.

Mr. JENKINS of Ohio. You take two married people and you make them pay more than other people and more than two single people, that is what you do.

Mr. DOUGHTON. We put them in the same situation as her husband. If she is enslaved, her husband is enslaved. She is the only one enslaved, according to the gentleman's argument.

Mr. JENKINS of Ohio. I am sorry that I am not smart enough to make the gentleman see the point. What right has the Congress got to do this? We have only the right to levy a tax on incomes and we have to levy that the same on the wife's income as on the husband's income. That is what we have to do.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield the gentleman 5 additional minutes.

Mr. RUSSELL. Will the gentleman yield?

Mr. JENKINS of Ohio. I yield to the gentleman from Texas.

Mr. RUSSELL. The gentleman stated in the beginning that the argument for penalizing the union of marriage did not appeal to him at all. He did not attempt to follow up that argument, yet I see by his argument and by his illustration that he has here that he shows a penalty of $253 for such sacred union.

Mr. JENKINS of Ohio. The gentleman gets the point exactly.

Mr. BOEHNE. Will the gentleman yield?

Mr. JENKINS of Ohio. I yield to the gentleman from Indiana.

Mr. BOEHNE. The gentleman has been rather voluble in his argument in reference to constitutional grounds. Would he care to express himself on the so-called moral grounds about which we have been receiving so many statements?

Mr. JENKINS of Ohio. I can answer the gentleman on that point. Does the sixteenth amendment to the Constitution say anything about morals? Answer me that.

Mr. BOEHNE. I am not on the stand.

Mr. JENKINS of Ohio. I am asking the gentleman.

Miss SUMNER of Illinois. No.

Mr. JENKINS of Ohio. Certainly not. It is not a provision of the fundamental law on morals. It deals with hard income and hard facts and when you come down in the Well of the House and tell

about morals you should remember that it is income tax we are dealing with. Figures are hard and they are determined, they are consequential; you cannot change them.

Mr. BEAM. Will the gentleman yield?

Mr. JENKINS of Ohio. I yield to the gentleman from Illinois.

Mr. BEAM. I would like to ask the distinguished gentleman from Ohio this question: Assuming a hypothetical proposition which the chairman of the committee submitted a few moments ago whereby for taxable purposes one of the spouses, in order to avoid the payment of taxes, turns over their income as a gift to the other person. Has the committee in its deliberations given any study to the thought of taxing that income as a gift?

Mr. JENKINS of Ohio. Here is what we have done: We have provided a gift tax. One of the gentlemen said awhile ago that does not apply every year. Then the way to do is to make it apply every year. If the law would penalize him so that as long as the woman holds that property and it brings in an income, let her pay her proportion of that.

Mr. DISNEY. Will the gentleman yield?

Mr. JENKINS of Ohio. I yield to the gentleman.

Mr. DISNEY. The gentleman does not deny that in the case of husband and wife having say a $10,000 income, under this system they will pay exactly the same tax as a husband with a $10,000 income?

Mr. JENKINS of Ohio. I am sorry, I was not able to follow the gentleman.

Mr. DISNEY. A husband and wife together have a $10,000 income, for example. Under this law they will pay the same tax as a husband singly with a $10,000 income?

Mr. JENKINS of Ohio. No. It does not work out that way.

Mr. DISNEY. Yes; in both cases the tax will be $1,166.

Mr. JENKINS of Ohio. There are so many exigencies in each case, that you cannot safely put up the proposition like that.

Miss SUMNER of Illinois. Will the gentleman yield?

Mr. JENKINS of Ohio. I yield to the gentlewoman from Illinois.

Miss SUMNER of Illinois. The gentleman stated that a method was suggested to the committee for catching that tax which was evaded by one spouse making a gift to the other. Did the committee consider the idea, which is my own and may not have any value, but I think it does, that the income from all property given by one spouse to another after marriage or in anticipation of marriage shall be charged as income to the donor?

Mr. JENKINS of Ohio. Let me tell you the consideration that moved the committee most. I am sorry to say that the discussion of this tax did not come up before the committee until the last 2 or 3 days before the committee concluded its work. The women of the country did not have a chance to come in and state their views. Here is what they saw: The committee saw $323,000,000. That is what they had to raise. That is how far they were behind, and that is the reason they espoused this plan. It means more money to spend.

Mr. BROWN of Ohio. Mr. Chairman, will the gentleman yield?

Mr. JENKINS of Ohio. I yield to the gentleman from Ohio.

Mr. BROWN of Ohio. In some of the community-property States, I understand the income of the husband is divided equally with the wife; in other words, if a man is paid a salary of $10,000 a year, the wife is credited with $5,000 and the man with $5,000. Under the old law and the new rates, the two would be paying $530 less tax than the gentleman or I would pay in Ohio on a $10,000 salary.

Mr. JENKINS of Ohio. I do not know just how that works out, but that is another thing I do not argue for. I do not argue for the community-property States. They will have to make their own argument on that basis. I do not argue for that.

Mr. BROWN of Ohio. Did the committee consider plugging that particular loophole?

Mr. JENKINS of Ohio. While I am on my feet, let me tell you how that should be disposed of. The gentleman from Massachusetts [Mr. TREADWAY] has introduced a bill, which has been before the Committee on Ways and Means for years, to handle this community-property matter. They could handle that, but you could not handle that under the sixteenth amendment to the Constitution.

Mr. AUGUST H. ANDRESEN. Mr. Chairman, will the gentleman yield?

Mr. JENKINS of Ohio. I yield to the gentleman from Minnesota.

Mr. AUGUST H. ANDRESEN. It seems to me it would be just as logical for them to tax the children in the family who live at home, so they can have one family return.

Mr. JENKINS of Ohio. Yes; it is the same story. You can make all kinds of stories out of it if you want to. This increase makes $253. That is the crux of the illustration. Somebody pays that $253, and whoever it is pays it unjustly. [Applause.]

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield 30 minutes to the gentleman from California [Mr. BUCK].

Mr. BUCK. Mr. Chairman may I first compliment the gentleman from Ohio who just spoke on his vigorous defense of the rights of womanhood as far as income from personally and separately owned property is concerned. I was very pleased to listen to him, particularly as I do not want my discussion to be considered as applying to any argument made on behalf of community property States. I do not think community property States will be affected in any way by the enactment of this law, for the simple reason that it is only within the power of Congress to tax income. In seven separate decisions by the Supreme Court, beginning with the case of *Poe* v. *Seaborn* (282 U. S. 101), a State of Washington case, and ending with the case of *United States* v. *Malcolm* (282 U. S. 792), a California case. All except one of these, the then community property States, had their division of income between spouses passed on and the Supreme Court held that community property income must be divided between husband and wife according to the laws of the State and, therefore, half must be taxed to the wife. If the wife, by chance, were the wage earner half her income would belong to, and be taxed to, her husband.

Some statements have been made that only the rich benefit by the community property laws. The exact reverse is true. It is interesting to note that in the Malcolm case, only a salary of $3,600 per year was involved and the tax involved was $18.39.

The attempt of the majority of the Committee on Ways and Means—and it was a very slim majority—provides for the addition of the income of the wife and the husband in every one of the 48 States, to make a unit, and then assessing the tax on the basis on which the income of each spouse enters into that unit.

The rule that was adopted by the House provides for the offering of a motion to strike out section 111 of this bill, which is the section covering this particular matter. This section was adopted, as the gentleman from Ohio pointed out, in the last 2 or 3 days of the executive sessions that were held, without any public hearings, and permitting no one who was adversely affected, or perhaps affected otherwise, to appear before the committee.

Whether or not the principle involved in this particular section is sound law—and, of course, I do not agree with it—it is absolutely unfair to consider it at this time and adopt it when there has been no opportunity for anyone to be heard on the subject.

I shall point out another unfairness in this section. It provides that if the husband and wife were living together on January 1, 1941, whether or not they separated immediately thereafter or later in the year, their whole year's income must be added together and taxed as a unit.

It is my considered belief, and it always has been—for that reason I filed a report not dissenting from the main portions of the bill but dissenting from this particular provision, in which dissent I am happy to say some of my colleagues joined me—that the husband and wife are separate entities. The report I filed was an extremely brief one. I cited only one example, and I should like to cite it again for the benefit of those of you who have not read the report.

If any one of you died and left two daughters, and left $20,000 to each of them, and one of them married a man who was earning a salary, whether it was $20,000, $10,000, or $50,000, the income from what she received from that $20,000 would be added to his income and be taxed at a higher rate than would be the income of her unmarried, spinster sister. That is not equality.

All through the report of the majority of the committee, all through the eloquent speech the gentleman from Indiana made yesterday ran the thought that you were overcoming an inequality. In fact, you would be creating an inequality, an inequality among womanhood throughout the country. It is noteworthy that women's organizations have

protested definitely against the enactment of this particular piece of legislation.

Mr. Chairman, it is my intention, when the bill is read, to move to strike out section 111, and I hope I may have the support not only of the 10 members of the Ways and Means Committee who voted with me when I made the same motion in committee, but a majority of the House, for the reasons that I shall now urge upon the Members.

Mr. VORYS of Ohio. Mr. Chairman, will the gentleman yield?

Mr. BUCK. I would prefer to finish my statement, but go ahead.

Mr. VORYS of Ohio. I thought this question might be helpful. Under the rule, will it be possible to offer any form of substitute or can the only amendment offered be one merely to strike out this provision?

Mr. BUCK. The rule provides for only one motion to strike out section 111 and such committee amendments as may be adopted by the committee itself. So far there have been three such amendments adopted.

As I said, the proposal is unfair. I have great dislike in coming before the House or the committee and filing a dissent from the Ways and Means report, and it is the first time I have ever done so, but it is my belief that the committee has laid itself open to justifiable criticism by the proposal that a husband and wife living together, regardless of the fact that each spouse has income of its own from salary, wages, or other sources which, in fact and in law, belong to them as individuals, must file a joint income-tax return and be taxed accordingly. By requiring that the wife's income be added to the husbands for tax purposes, a fictitious figure which is neither the income of the husband nor the wife, but is larger than that of either, is arrived at with the result that higher surtaxes are inevitable and each has to pay an additional tax.

This provision disregards the vested rights of our citizens, affects property arrangements made long before this proposal was ever thought of or anticipated. This affects the rights, as the gentleman from Ohio pointed out, which the women of the country have long struggled for and finally obtained, and, finally, in my opinion it violates the Constitution of the United States, certainly, insofar as the seven decisions which I have cited rendered by the Supreme Court are applicable.

There are only two reasons that actuated the Ways and Means Committee in adopting this proposal. First, as was pointed out, it looked like an easy way to raise $323,000,000. Personally, I do not believe it will raise any such amount of money, and on Monday when we discuss the motion to strike I shall have some additional figures from the Treasury which I think will disprove that claim.

The second reason was that there has been a very definite misunderstanding in the committee and elsewhere about the effect of community property laws and the belief that they improve the income-tax status of citizens of the United States. If they do so, they do so at much greater expense and detriment to the husband, at least in other matters, including inheritance laws, than the advantage that the husband has in States where he can own all the property without the obligation to pay from the income therefrom to his wife, which far exceeds any advantage that a taxpayer in a community property State has.

It is not my purpose to discuss community-property laws this afternoon. I shall be glad to discuss them and to answer questions on them later during the course of the debate or on Monday, if they are not fully answered in the meantime.

Community-property laws were adopted long before any income-tax laws were thought of. Some of the advocates of section 111 might be interested to know that these laws came into this country from Scandinavia and through Saxony, and France and Spain. The Charter of Crozat, creating the Territory of Illinois, provided that community-property law must be the law of the land. It was the law of Arkansas and Iowa and Utah for years. It was the law of Missouri until 1807. The infiltration of what we call Americans from the common-law States who could not understand the workings of the civil law, led to its abolition in those States. Nevertheless, the principle which has been found workable and found the best method of protecting the rights of women has been maintained in all of the States of the Southwest and adopted in the States of Washington and Idaho in the Northwest.

I shall simply say it has its foundation or its origin in the principle that a man and a woman, united in the marital relation, are in partnership. Even if the women did not work in the fields; even if they did nothing more than take care of the house and bear children, a woman was regarded as contributing her share to the partnership and was entitled to one-half of whatever income was earned. That is the principle upon which the community-property laws are founded.

Mr. DISNEY. Mr. Chairman, will the gentleman yield?

Mr. BUCK. I said "entitled," not as a gift, but as a right; and I have given the gentleman from Oklahoma, as I have given practically every gentleman of the committee, a copy of the translation of those Spanish laws that date back at least to the year 1200 that answer every question that could be asked on this subject.

Mr. DISNEY. And I want to ask the gentleman one now.

Mr. BUCK. Very well.

Mr. DISNEY. Of course, all members of a partnership are liable for the debts of the partnership.

Mr. BUCK. Well, a woman is not liable for the debts of her husband under the community-property system.

Mr. DISNEY. If there is a partnership, she is liable.

Mr. BUCK. But the committee has not proposed to add up the income of partner DISNEY and partner DOUGHTON and put them together.

Mr. DISNEY. We are doing better than the gentleman has even suggested.

Mr. BUCK. I told the gentleman at the start that if there are any advantages to be received from the income-tax release in community-property States, they are more than outweighed by the other disadvantages on the husband. Even if a woman is found in adulterous conduct, still she is entitled to half of her husband's income.

Mr. BOEHNE. I wish the gentleman would justify this. If I have an income equal to the income of the gentleman from California, say $10,000 a year, why should I be compelled to pay $280 more tax?

Mr. BUCK. Because the State of Indiana has not been enlightened enough to adopt a community-property system.

Mr. DISNEY. Then suppose New York and Illinois, Ohio, and Pennsylvania, and the other rich States of the Union adopted the same thing, what advantage then would California have?

Mr. BUCK. I am not claiming that California has any advantage. I have suggested that I do not particularly care to discuss the community-property system this afternoon, although I shall be glad to on Monday if anyone desires to inquire further into it, but as far as New York, Indiana, and Illinois are concerned, it seems to me that it would be to the advantage of their womanhood, if they adopted that system. Oklahoma did. I know perhaps that Oklahoma's right has not been ratified by the Supreme Court, but the legality of the laws in the other eight States has.

Mr. DISNEY. Would it be interrupting the gentleman to say that Oklahoma did it in self-defense, that rich people were coming there to legally avoid taxes?

Mr. BUCK. Income is income, however it is defined, and the Supreme Court in these seven cases has ruled that a State can define what income is. It can certainly define what the marital relation is, whether as to taxes or anything else.

Mr. MONRONEY. The internal-revenue department does not recognize Oklahoma's community-property law as being valid, and the returns filed under that are being rejected and these men forced to file joint income-tax returns.

Mr. BUCK. Not necessarily joint—separate. I understand they have some objection to the form of the Oklahoma law.

Mr. MONRONEY. They claim it has not been ratified by the United States Supreme Court, and it will probably be a year or two before that reaches that Court. In the meantime, these Oklahomans are further discriminated against because of the fact that our wealthy people can save money by moving into community-property States.

Mr. BUCK. I say that there were two reasons why in my opinion the majority of the committee, and the vote was close, adopted this repulsive measure, and one of them I said was because of a misunderstanding of what the community property law is. It is as much a distinct form of land tenure, inheritance, and distribution of income as the common law. Under the common law, as the gentleman from Ohio [Mr. JENKINS] pointed out, the husband took

possession of all of his wife's property, personalty, and income, from the day that she was married. There is no question about that. He had absolute control. Under this form of law the husband and wife enter into what we call a partnership from the day they become married.

Mr. MAGNUSON. Mr. Chairman, will the gentleman yield?

Mr. BUCK. Yes.

Mr. MAGNUSON. I am in the same situation somewhat. I come from the State of Washington and the community property law has been a part of our law ever since prior to statehood. I hope the gentleman will enlarge upon the fact that if this provision becomes a law it will mean the rewriting in the State of Washington of wills, property settlements, and the rewriting of decisions. In other words, it will change the whole basic marital community property law in our State, because our State has held time and time again that a thing that is taxable is tangible estate, and if it becomes joint estate in our State, we will have to rewrite our basic law, which we have had for almost a hundred years.

Mr. BUCK. I thank the gentleman for his contribution.

Mr. MAGNUSON. I will say further that I think we should have been entitled, on a thing as important as this is to these eight States, to at least present our problem to the Ways and Means Committee, because it means millions of dollars of adjustments in those States.

Mr. BUCK. It means millions of dollars of adjustments in those eight States, but it probably will mean perhaps billions of dollars of adjustments in the other 40 States.

Mr. SANDERS. Will the gentleman yield to me in connection with the remarks of the gentleman from Washington?

Mr. BUCK. I yield.

Mr. SANDERS. The gentleman's observations are correct, provided this proposed legislation is held to be constitutional with regard to the community-property States, because a very profound constitutional question is involved as to whether this Congress has a right upon its own motion to simply cancel State legislation that has been on the statute books for a century or more.

Mr. BUCK. I do not know whether the gentleman was in the Chamber when I started my remarks, but at that time I stated I had very grave doubt about the constitutionality of this bill as it affected community-property States.

Mr. DISNEY. Will the gentleman yield further?

Mr. BUCK. I yield.

Mr. DISNEY. To my mind, this is an absurd suggestion that the community-property laws of the States are going to be abolished by this tax statute. It does nothing of the kind. The Robbins case simply held——

Mr. BUCK. Oh, that was overruled afterward.

Mr. DISNEY. But that case simply held that the Congress could, if it wanted to, assume control over the community-property situation so far as taxes are concerned, and that alone.

Mr. BUCK. Oh, it did not even hold that, I regret to inform my colleague from Oklahoma, whose legal opinion is usually correct but he is entirely wrong on the Robbins case.

Mr. DISNEY. What does it do, then? Did not Justice Roberts say that if the Congress saw fit, it had a right to tax in community-property States as in other States and did that imply the setting aside of community-property laws?

Mr. BUCK. That was pure dictum. Now, if the gentleman will forgive me, I would like to finish my statement.

Mr. DISNEY. I will read what Justice Roberts said.

Mr. BUCK. Now, just a minute. My time is drawing to a close.

Mr. DISNEY. For your information, here is what Justice Roberts said:

> Even if we are wrong as to the law of California, assuming that a wife had an interest in the community income which the Congress could tax, if so minded, it does not follow that Congress could not tax the husband for the whole.

Mr. BUCK. The Robbins case has been cited by my distinguished friend from Oklahoma. What he read was only dictum of the Court. However, in view of the fact that it was called to the attention of the Committee, I feel that I should state that in respect of the judicial interpretation of the Constitution of California, and laws enacted under it, most of such judicial interpretation was made by jurists who were familiar with the common law and not with the civil law. Under the influence of decisions where California courts had used language such as indicated that the wife did not have an actual vested interest in the common income, the Robbins case was decided.

Whatever the imperfections of the California law were at that time, they were very definitely cured by act of the legislature later, acting under the constitutional provision of article XI, section 14. For those who cared to follow the matter legally, I cite the cases of *Siberell* v. *Siberell* (214 Calif. 767), and *Stewart* v. *Stewart* (199 Calif. 318), and the earlier case of *Dow* v. *Gould & Curry S. M. Co.* (131 Calif. 629), page 640, in which it was said:

> The only marked exception (to the adoption of the common law) is found in the section under consideration, providing for the separate property of the wife and the common property of both husband and wife.

Now, the community system remained in California by virtue of the Treaty of Guadalupe-Hidalgo. It has always been there. There is no discrimination, therefore, against the Eastern States and there is no manipulation against the income-tax laws of the United States. It is only a question, gentlemen, of whose income you are taxing.

Well, let us see what Attorney General Stone, who is now Chief Justice of the United States, said with reference to the confusion that existed in the California courts—and it was the confusion in the California courts that caused the decision in the Robbins case. I know that most of those who are listening to me are not familiar with the Robbins case, but that was a community property income-tax case, in which income tax was held assessable entirely to the husband.

> The confusion in the decisions of the California courts with respect to the wife's interest in community property has undoubtedly arisen from the fact that the courts have been attempting in their opinions to apply the terminology of the common law to community property, which embodies a legal concept wholly foreign to the common law and under which the terminology of the common law cannot be applied with accuracy and precision (34 O. A. G. 395).

I am not going to go into the community property any more. I will have to refuse to yield, because I have some things that deal with the principle of this matter. As long as Attorney General Stone is Chief Justice of the Supreme Court we may assume that he may feel the same way about any legal case that comes before him in regard to this subject.

It is true that the counsel for the Joint Committee on Internal Revenue Taxation has endeavored to differentiate and distinguish the case of Hoeper against the Tax Commission of Wisconsin, which held a State could not tax a husband and wife on the total of the income, his income and her income, where the tax would be greater than the sum of the tax that would be due if the incomes of husband and wife had been separately taxed. It is true that the bill before the House has been worded differently from the Wisconsin statute in an attempt to circumvent the Constitution, but I still hold to the principle laid down by the Supreme Court in those seven cases, and elsewhere, that we cannot do indirectly what we cannot do directly. If we wish to maintain stability in our democratic system and have any respect for property rights, it seems to me that we cannot approve radical and sudden departures from a system so long established, which has been ratified by these judicial decisions.

The gentleman from Washington [Mr. MAGNUSON] asked me to discuss further the question of what effect this law might have upon established legal transactions. It is my opinion that our citizens, relying upon laws long in existence, ratified by the courts, have conducted thousands of transactions the results of which will now be adversely affected, in spite of the fact that many of those transactions are irrevocable in character. Many a man has given property to his wife—and I am not talking about community-property States now—many a man has given property to his wife and paid the gift tax. It is true there may be annual income-tax saving, but it may take 10 years for that saving to equal the amount of the tax. Meanwhile the Government has used that money.

Somebody will say he saves the estate tax. That is not necessarily true. If the wife dies first and the property reverts to him, he will not save a dollar of estate tax. In any event, the estate will be taxable on the death of the wife, and if she dies first the total estate tax on the couple will be greater than if the gift had not been made.

In the third place, I believe that the rights of the women of this country will be seriously affected. It took a long time for women to acquire the right to receive income from their own property; now that they have that right we are attempting to say to them your rate of tax will depend not only on how much income you receive from your separate property but it will also depend on the size of your husband's income.

Finally, I predict administrative difficulties will arise in the application of the compulsory joint return. It will be difficult to prove that a husband and wife are living together in many cases, and the exact liability of each spouse for the tax will be difficult to determine. Some persons of judgment even think that the provision may discourage marriages and encourage separations and even divorces.

Before concluding, I wish to state a few practical examples of how the compulsory return will affect our married couples.

As a first example, assume a married couple, the husband having a net income from salary of $4,000 and the wife having a net income from salary of $2,000. Under the law as it now stands on the basis of separate returns, the combined tax on the married couple would be $149.60. Under the new rates proposed in this bill, assuming separate returns still allowed, the combined tax would be $386.10, an increase of 158.1 percent over the tax imposed by existing law. Under the new rates proposed in this bill, coupled with the compulsory joint return, the total tax would be $435.60, or an increase in tax over existing law of 191.2 percent.

As a second example, assume that the husband has a net income from salary of $10,000 and the wife a net income from salary on her separate property of $5,000. The combined tax under existing law would be $792. Under the proposed rates in the new bill, if separate returns were allowed, the combined tax would be $1,815, or an increase of 129.2 percent. Under the new rates, coupled with the compulsory joint return, the total tax would be $2,545.40, an increase of 221.4 percent over existing law.

Finally, to show that the proposed bill affects the smaller incomes more than the large incomes, I will give a third and last example.

Assume the husband has a net income of $600,000 and the wife a net income of $300,000. Under present law the combined tax is $590,398.20. Under the new rates contained in the bill, but on the basis of separate returns, the combined tax would be $621,047.70, an increase of 5.2 percent. On the basis of the new rates and the compulsory joint return the total would be $658,119.60, or an increase in the tax burden of 11.5 percent more than that imposed by existing law.

At this point I ask unanimous consent to have inserted in the RECORD a brief table showing the effect of the new rates and the compulsory joint return on various specimen net incomes.

Mr. Chairman, I have prepared a table showing the effect of the new income-tax rate on husband and wife on the basis of separate returns under the present law and under the proposed increased rates in the bill, and the tax on husband and wife on the basis of compulsory joint returns under the proposed new rates. This has been prepared by me personally, and I ask permission to insert it at this point in the RECORD.

The CHAIRMAN. Without objection, it is so ordered.

There was no objection.

The table referred to follows:

Table showing taxes on various net incomes

	Tax under present law, separate returns	Tax under new rates, separate returns	Percent increase due to rates	Tax under new rates and compulsory joint returns	Percent increase due to rates and compulsory joint returns	Percent increase of joint return tax over tax under new rates with separate returns
Aggregate net income of husband and wife:						
$3,000	$30.80	$85.80	178.6	$85.80	178.6	0
$6,000	149.60	386.10	158.1	435.60	191.2	12.8
$9,000	290.40	768.90	164.8	961.40	231.1	25.0
$12,000	562.70	1,239.70	146.6	1,663.20	230.8	34.2
$15,000	792.00	1,815.00	129.2	2,545.40	221.4	40.2
$24,000	2,020.70	4,110.70	103.4	6,032.40	198.5	46.7
$36,000	4,087.10	8,361.10	78.4	12,038.40	156.8	43.9
$60,000	12,521.30	19,429.30	55.2	26,206.40	109.3	34.9
$90,000	25,759.80	36,215.50	40.6	46,204.40	79.4	27.6
$150,000	58,660.80	74,561.30	27.1	88,299.60	50.5	18.4
$900,000	590,398.20	621,047.70	5.2	658,119.60	11.5	6.0

Tax on husband and wife on basis of separate returns under present law and tax on husband and wife on basis of proposed increased rates in revenue bill of 1941 on basis of separate returns, and tax on husband and wife on basis of compulsory joint returns and proposed new rates.

Assumptions: (1) Income of husband in all cases two-thirds of aggregate and of wife one-third; (2) maximum earned income allowances; (3) no dependents; (4) husband takes $1,500 of personal exemption, wife $500.

Mr. BUCK. In conclusion, let me call your attention to the fact that this revenue bill will be retroactive over a period of 8 or 9 months and that, therefore, the compulsory joint return requirement superimposed on greatly increased rates will result in great hardship this year, because our citizens have had no certain knowledge of the change, and no opportunity was given in the hearings before the Ways and Means Committee for the public to express its view, since there was no intimation until long after the hearings were concluded, that any such proposal as a compulsory joint return would be considered.

The proposal should not be considered at this time or in this bill simply for the last reason I have stated, that it ought to be thoroughly studied by all members of the committee and understood by the public before any action is taken.

I sincerely hope that the motion to strike section 111 from the bill will be carried overwhelmingly.

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from Indiana [Mr. SPRINGER].

Mr. SPRINGER. Mr. Chairman, I would deem that I was remiss in my duty here as the Representative of some 300,000 people in my congressional district if I should not speak upon this pending measure, which is the largest revenue bill to be presented to any Congress in this Nation. H. R. 5417 will be a staggering blow to the people of this Nation when it is passed, and I apprehend that this bill will be passed by the House. This bill, and the sorry implications involved, is merely evidence of the fact that when our Government spends money our taxpayers must respond, because the source of the revenue for our country is in the taxpayers. This bill presents another fact to the people, and that fact is that when we spend money pay day will come after a while, and we have to meet that obligation. It is tragic to think that some of our people occupying places both high and low appear to have entirely forgotten that pay day will come in the future. Today we are facing the pay day for the tremendous spending by our Government throughout the 8½ years of this administration.

Mr. Chairman, I cannot subscribe to the method used in presenting this bill under a closed rule. I voted against the closed rule here presented, because under that form of gag rule the Members of the House do not have a fair opportunity of presenting amendments to the various provisions of the bill, and there is no opportunity given to vote upon the various provisions contained in the bill separately. The sole and only provision contained in this bill which is subject to amendment is the policy of joint returns by husband and wife. Every other provision contained in this bill, regardless of what those provisions may be, are not the subject of any amendment by any Member, and the final vote will be on the bill, and it will have to be voted "up" or "down." In other words, this revenue bill, which will raise approximately $3,500,000,000 annually from the taxpayers of this Nation, has been presented to the House under a gag rule of the very worst type, which gives the right to the committee to present but one amendment, and that respecting the question of the joint or separate returns by husband and wife; every other provision contained in this bill, however repulsive the same may be and however disastrous those provisions may be to business and industry, must be either accepted or rejected. I have opposed every gag rule that has been presented to the House since I came here, and I will continue my opposition to that type of rule as long as I continue to serve the good people of the Tenth Congressional District of Indiana, which I have the distinct honor to represent. I cannot concur with any type of legislation which is literally forced upon the Mem-

bers of the Congress. It destroys the freedom of the Members to represent the people and it destroys the opportunity of the independence of the representatives of the people to legislate in their behalf. In this very instance the members of one committee of the House, consisting of a very great minority group of this entire membership, by the token of this gag rule are, in substance, legislating for this entire body. This method entirely destroys representative government in our country. To this very reprehensible plan I can never concur.

Mr. Chairman, at the outset of my remarks I stated that this pending bill is evidence that pay day has come. Throughout the past 8½ years the tragic spending of the taxpayers' money has continued. There has been no abatement in that policy. It is continuing to this very hour. The people have been appalled at the unbusinesslike procedure of this administration, because it has proceeded as if pay day would never come. The huge spending program of this administration, directed by the Chief Executive and augmented by the various heads of departments, has led us into a staggering debt, and this debt had reached almost $46,000,000,000 before we began our preparations for defense of our country. We have been advised, quite recently, that the expenditure of money, embraced in appropriations and authorizations, has almost reached the stupendous sum of $50,000,000,000 for national defense. Therefore we find that our debt is rapidly approaching the $100,000,000,000 mark. Yet, in the face of our depleted financial standing—in the face of onrushing bankruptcy—practically every nondefense item which is presented to the Congress is voted through by the majority just as if we have a well-filled Treasury. It is the spending program running riot. It is tragic to behold. Practically every measure which has been presented to the Seventy-seventh Congress, which embraced nondefense items, has been largely increased over the appropriations requested for previous years. We are now faced with unnecessary items, such as the St. Lawrence seaway project and many others, which will cost untold sums of money, and which, by the wildest stretch of the imagination, could not be construed as defense items. These nondefense items must be entirely eliminated which are unnecessary, and those items of expense in the various departments of Government must be greatly reduced in order that we may proceed to the completion of our defense program. I have urged that all nondefense items be drastically reduced, and I am convinced that such reductions can be made to the extent of more than $2,000,000,000 annually without impairing the civil functions of our Government. This reduction is essential if we are to be able to withstand the tremendous financial strain we are certain to face in the future.

Mr. Chairman, I wonder what our situation would be if we should eventually become involved in a shooting war? One of the essentials in war is a well-filled treasury. Our Treasury is empty. We have a staggering debt upon us. All of this stands before us now, and we are yet at peace. Our taxpayers throughout the Nation are struggling to pay their taxes, they are facing regulations on every hand—our farmers are forced to curtail their production or they face a penalty—yet they must aid in feeding the nonproducing people of the world, and our people have this oncoming burden of the largest tax measure ever presented to face again. They must meet it—how they will be able to do it no one can tell. The vast amount of money already appropriated, and authorized, for national defense is being rushed into the preparation for war; it is being expended rapidly, and in many instances unwisely. Business methods should be developed in every branch of our defense program in order that we may receive $1 in value for every dollar which we spend. Our defense is costing us greatly in excess of that of any other nation. The waste and extravagance in the Army camps and in the production plants is appalling. Germany, with her great debt following the last World War, conserved her finances. She developed her national-defense materials, her planes, tanks, and guns, she developed her army, all at much less cost than we are doing. Yet we are wildly squandering our resources, and at a time when we are facing extreme peril in our financial structure. If this orgy continues I fear a complete break-down of our entire financial structure. Our people cannot stand the very heavy imposition of excessive taxes upon them in the face of the present existing conditions in our country. We are facing a sad and sorrowful future.

Mr. Chairman, we must develop our national defense so we may be able to resist the attack of any foe, but this must be done both wisely and sanely. The money of the people must not be frittered away, but it must be spent for needed and essential things and the great waste which has been discovered must be stopped. Our people must not be engulfed by large taxes and the money wasted. It must be spent wisely and prudently. The people demand that strict business policies be followed in this huge development. We must think of the future, and we must think of the days ahead when this defense preparation is over. We must prepare to defend ourselves against want and hunger, and we must consider the lives of the children of today who will become the taxpayers of tomorrow. We must think of the destiny of our Nation.

Mr. TREADWAY. Mr. Chairman, I yield 20 minutes to the gentleman from Kansas [Mr. CARLSON].

Mr. CARLSON. Mr. Chairman, we have had some very excellent consideration of this bill on the floor, and I will say that 3 months of study and labor in the writing and reporting of this bill has led every member of the committee, I believe, and every Member of Congress to think seriously of the pay day mentioned by the gentleman from Indiana. No one can study the finances of this country without being greatly concerned about them.

I realize that it will be hard to touch on any new phase of taxation that has not been covered by previous speakers, but I do appreciate the kindness of the Committee in giving me this time. Our committee has worked hard on this bill. It is not a perfect bill. In fact no tax bill is ever classed as a perfect bill, or even a good bill. We have now reached the place in our national economy where we must have additional tax revenue. Eleven years of deficit financing for any nation is sufficient cause for alarm.

Our citizens have been demanding more and more contributions and subsidies from the Federal Treasury. These funds have been voted and now pay day is here. Pay day has arrived at a very inopportune time. The world is in turmoil. Wars and fears of war affect every Nation. We entered World War No. 1 with a national debt of $1,000,000,000. Today our Nation, threatened with war, has a national debt of over $50,000,000,000. Some believe our national debt will reach $100,000,000,000 in the very near future. This tax bill is the largest ever presented to Congress and even that falls far short of needed revenue. It seems almost futile to report to the House a revenue bill of three and one-half billion dollars when we are spending between twenty and twenty-five billion dollars this year. It will be necessary to borrow about $1 additional for every dollar collected in taxes. This disparity would not be so bad if we could assure the country that our Federal expenditures would soon be reduced. We are spending our reserves and placing an unbearable financial burden on our resources. Our children will look back to this period in our Nation's history as a period of waste and extravagance.

Since January 1, 1940, Congress has voted over $52,000,000,000 for national defense. We may get a better picture of how much money that is if we realize that the entire agricultural net worth of the United States is around $30,000,000,000. We have voted funds for national defense during the last 18 months that equal one and two-thirds times the value of every farm, all farm machinery and livestock in the entire United States. There are approximately 6,500,000 farms in the Nation, and if this load were equally distributed it would mean a debt of $8,000 per farm. Remember, also, that this does not include the money voted by Congress for nonmilitary expenditures. The value of all farms, farm machinery, and livestock in the State of Kansas totals $1,662,423,150. The large sum of $52,000,000,000 means that we have voted in 18 months for national defense the agricultural net worth of 30 States equal in agricultural net worth to the great farming State of Kansas.

I do not mention these figures in order to express opposition to national-defense expenditures. I do mention them because I believe it is time for every citizen to demand justification for every dollar spent. No one but an anarchist would deny we must have funds for national defense and general Government expenditures. However, no citizen wants any of his tax money squandered or wasted. Those who are spending our national-defense funds must be required to give an accounting.

BROADEN THE TAX BASE

My one criticism of this tax bill is that we did not broaden the tax base. The exemptions in this bill are the ones we

adopted in the Revenue Act of 1940. Our Nation is facing a national emergency, and under these circumstances we should call on every citizen to contribute a part of his income to the Federal Treasury. Remember, when we speak of personal income taxes, we mean net income. Under this bill a married man with two dependents pays an income tax of $11 on a net income of $3,000. The married man who has a net income of less than $2,000 makes no direct contribution to our Government. A married man with $2,500 net income pays $38. This may not be a popular suggestion, but 3 months of study on this tax bill has convinced me we must either broaden the base or vote a general sales tax. Certainly you cannot justify these exemptions in an emergency. We need reduced personal income-tax exemptions in order to halt an inflationary price movement which may be very destructive. We need reduced personal income-tax exemptions so that more of our citizens would become tax-conscious. How can we reduce Federal expenditures when we have some 13,000,000 of our citizens receiving nondefense money in the form of salaries, pensions, farm payments, and so forth, while only about 7,000,000 of our citizens pay taxes directly to the Treasury? As long as we have this condition it will be practically impossible to secure a reduction in Government expenditures. It would, of course, be easier to vote excise or hidden taxes. The average citizen is already spending a large part of his salary in hidden taxes. Few realize how much a sales tax costs the average family. A general sales tax is no doubt the easy way to raise a large amount of revenue. The questions is, Is it the fair way? This tax is levied and collected without regard to ability to pay. The farmer, laborers, and low-income groups would carry more than their share of the burden.

The Iowa State College made a study of our present tax problems at the request of Mr. Edward A. O'Neal, president of the American Farm Bureau Federation. The statement submitted by Mr. O'Neal to the Ways and Means Committee contained the following information:

An income study made a few years ago shows that 18 percent of our farmers, or a million farm families, fell in the less-than-$500-income bracket in 1935–36, while 53 percent had an income less than $1,000.

Incomes	Percent of all nonrelief families in group	
	Farm	Nonfarm
Under $500	18	8
$500 to $999	35	14
$1,000 to $1,500	23	24
Over $1,500	24	54

Families in the "less than $500 income" bracket are already paying more than 22 percent of their income for taxes when allowance is made for State and local as well as Federal levies. This is a heavier tax burden than is borne by any other group making less than $10,000 per year. The following table shows the percentages of income now being taken from various groups by present taxes:

Income class:	*Percent of income taken by present taxes* [1]
Under $500	22.5
$500 to $1,000	18.7
$1,000 to $1,500	18.1
$1,500 to $2,000	18.7
$2,000 to $3,000	18.5
$3,000 to $5,000	19.0
$5,000 to $10,000	19.3
$10,000 to $15,000	28.3
$15,000 to $20,000	35.7
$20,000 and over	43.2

[1] G. Cohn and H. Tarasov, Who Pays the Taxes? These estimates include the defense taxes of 1940.

From a family income standpoint, farmers are about in the same class as wage earners and, as consumers, will be similarly affected by sales or excise taxes, with the exception they do not spend as high a portion of their income for food.

The Iowa State College study shows that under present tax laws only $16,000,000,000, or 18 percent of a national income of $88,000,000,000, would be taxable. If we should lower present exemptions from $2,000 to $1,000 for the head of a family, and from $800 to $500 for a single person, and the credit for dependents from $400 to $200, we would increase the tax base to approximately $27,600,000,000, or about 32 percent of an $88,000,000,000 income. By eliminating the present "earned income credit," we could add another $4,700,000,000 to this sum, making the total tax base $32,300,000,000, or 37 percent of our total income. With this larger base a normal tax of 10 percent would raise over $3,000,000,000, or five times as much as our present revenue from this tax. Of course, additional sums must also be obtained through higher excess profits and corporation taxes and from an extension of surtaxes. The following table, adapted from data supplied by Iowa State College, shows the relationship between national income and the income tax base (assuming a national income of $88,000,000,000) with present exemptions, with the new exemptions suggested above, with one-half these exemptions, and with no exemptions:

[Billions of dollars]

Group of income receivers	Net income [1]	Earned income credit	Taxable income	Exemptions	Tax base
1940 EXEMPTIONS [2]					
Persons taxable	33.6	2.6	31.0	15.0	16.0
APPROXIMATELY ONE-HALF PRESENT EXEMPTIONS [3]					
New taxpayers	21.5	2.1	19.4	14.7	4.7
1940 taxpayers	33.6	2.6	31.0	8.1	22.9
APPROXIMATELY ONE-QUARTER PRESENT EXEMPTIONS [4]					
New taxpayers	10.0	1.0	9.0	6.1	2.9
Taxpayers under the higher exemptions	55.1	4.8	50.3	11.4	38.9
NO EXEMPTIONS					
New taxpayers	4.0	.4	3.6	0	3.6
Taxpayers under the higher exemptions	65.2	5.8	59.4	0	59.4

[1] After allowable deductions, allowances for nonreporting, understatement, and noncash income.
[2] $2,000 for the head of a family; $800 for a single person; $400 for each child.
[3] $1,000 for the head of a family; $500 for a single person; $200 for each child.
[4] $500 for the head of a family; $250 for a single person; $100 for each child.

COORDINATE OUR TAX STRUCTURE

A study of the tax structure of our Nation convinces me that we must soon grapple with the problem of correlating our tax sources. Taxes are now levied by the Federal Government, State governments, county, municipal, and local units without regard for overlapping in every field. This problem, of course should have been seriously studied before many of our taxes were levied. It has been altogether too easy to raise tax rates on existing tax bases or duplicate taxes collected by other taxing units. The problem is now acute. It is not an easy one to solve, but an effort should be made to apportion various phases of our tax structure to the different taxing units.

The total tax burden on the consuming public has increased approximately 100 percent in the last 10 years. A survey by the National Industrial Conference Board shows that in 1928 we paid 12.3 percent of our national income in taxes, while 10 years later, 1938, we spent 22.4 percent of our national income for the same purpose. This rapid increase is alarming.

We hear much about the extremely high taxes in Great Britain, yet in 1938 that country consumed only 21.7 percent of their national income for taxes. Contrary to popular belief we are already spending a greater percent of our national income than Great Britain.

The percentage of the national income consumed by governmental expenditures for the years 1913 and 1923 to 1939, as compiled by Tax Foundation, Inc., is herewith set forth. The national income is the average of the income produced for the year indicated and the preceding year. For 1939 it is for the year ended June 30, 1939.

Governmental expenditures and national income, fiscal years 1913 and 1923–39

Year	National income in billions of dollars	Governmental expenditures		
		Amounts in millions of dollars	Percent of national income	
			All governmental expenditures	Federal	State and local
1913	35.4	2,919	8.2	2.0	6.3
1923	64.6	8,850	13.7	4.7	9.0
1924	69.3	9,395	13.6	4.1	9.5
1925	71.7	9,869	13.8	3.9	9.9
1926	75.3	10,113	13.4	3.7	9.7
1927	75.8	10,453	13.8	3.6	10.2
1928	77.2	10,972	14.2	3.6	10.6
1929	80.9	11,611	14.4	3.7	10.7
1930	75.9	11,943	15.7	4.2	11.6
1931	61.7	12,380	20.1	5.8	14.3
1932	47.2	13,129	27.8	9.4	18.4
1933	41.3	11,284	27.3	9.2	18.1
1934	46.6	13,604	29.2	12.8	16.4
1935	53.7	15,011	28.0	12.9	15.0
1936	61.0	17,009	27.9	14.1	13.8
1937	68.6	17,187	25.1	12.2	12.8
1938	68.0	17,050	25.1	11.1	14.0
1939	66.3	19,100	28.8	13.8	15.0

It can readily be seen that during the past decade, 1929 to 1939, the percent of national income that is consumed by governments has increased from 14.4 percent to 28.8 percent, or an increase of 100 percent. Of these expenditures 7.8 percent represents Government deficits.

A survey just completed by the American Federation of Investors of 165 of our leading corporations gives a very interesting tax study. The 1940 taxes amounted to $735 for every employee on the pay rolls of these companies, compared to $612 for 1939, or an increase in taxes equal to $123 per worker. The taxes of all kinds for 1940—Federal, State, and local, of these 165 representative corporations, totaled $2,565,000,000, which is an increase of 29.6 percent over 1939. These same companies paid $3.92 in taxes on every share of stock while the dividend payments averaged $1.91. These corporations add their taxes to the cost of the commodity sold. It is pure demagoguery to state that we will get our tax money from the corporations. It is about as logical as the statement that the rich pay all the taxes.

The corporations in this group that process and distribute gasoline, oil, and refinery products were paying a tax from $2,729 to $4,256 per employee. These taxes were, of course, passed on to the consumer. These companies were the collecting agents for the various taxing units. My point is that there is great danger in placing such a large tax burden on industry that we may destroy the ability of these corporations to expand and build up a reserve to cushion the shock our Nation will no doubt receive when Government spending ceases.

It is my contention that we must eliminate some of the conflict and confusion that is now existing, and rapidly increasing, between Federal and State, State and county, county and local governments. We need a correlated tax system. In other words the Federal, State, and local governments should agree to confine their activities to certain fields. The gasoline tax, which is comparatively a new tax, is now collected by the Federal, State, and some local units. My opinion is that this tax belongs to the States and this never should have been invaded by the Federal Government. The evolution of it as a Federal tax is an interesting one. It was first approved by Congress in 1932 as an emergency tax, the rate being 1 cent per gallon. The understanding was that it would expire in 1933, but instead it was extended to 1935, and during the period 1933 to 1934 it was increased to 1½ cents per gallon. The tax was scheduled to expire on at least four dates since 1932. The 1940 Revenue Act increased the rate one-half cent per gallon, which is the present rate. The Treasury recommended a further increase of 1 cent which was not approved by the committee. In many sections the tax on gasoline is equal to, or over, 50 percent of the sale price.

There are over 175,000 tax units in the United States, and thousands of these overlap. There are 35 States that have an income tax in some form. There are 26 States, and at least 2 cities, that have a sales tax. Most States have inheritance and estate taxes. Social-security taxes are collected by the Federal, State, and in some instances, by county governments. The interpretation of conflicting tax laws has resulted in confusion and duplication. The collection of the taxes has added a great burden of expense on the taxpayers. Why not eliminate this duplication and added expense? A good place to begin would be with the social-security taxes. The social-security taxes should be levied on a pay-as-you-go basis. The centralization of the collection and payment of these taxes would eliminate expensive tax collections and reduce administrative expenses. The social-security program should be national in character. Many of our smaller taxing units are being forced into bankruptcy by this tax load. Social-security taxes should never be collected through a property tax, yet that is being done in several States.

Let me suggest that the Congress authorize a special committee to make a thorough study of overlapping taxes and report to Congress at the earliest possible date.

Congress will, no doubt, write another revenue bill in 1942. The natural and the easy thing to do will be to increase rates and reduce exemptions on existing taxes. I ask, is it the fair thing to do? Taxes will be our big problem for the next generation. Let us meet it the correct way—not the easy way.

Mr. DOUGHTON. Will the gentleman yield?

Mr. CARLSON. I yield to the gentleman from North Carolina.

Mr. DOUGHTON. I was misunderstood. I said we might have to do that. There is no reasonable tax but what we might have to resort to it; and while in ordinary times, under normal conditions, I am inherently opposed to the sales tax—and I have a record on that that is Nation-wide—in an emergency, to save our country and liberties, I would not say definitely that I would not favor a sales tax. I do not say I would. I certainly would not say that under no circumstances will we have a sales tax. Perhaps that form of taxation is not in sight. I think the gentleman and I are in accord.

Mr. CARLSON. I appreciate the gentleman's statement. He and I are in accord. We all realize we must have more taxes, more revenue, if we are to retain and maintain our democracy, and after all that is worth more to the citizens of this country than individual sales taxes or any other kind of taxes.

Here is what happens when you levy an excise tax: We have hundreds of thousands of families in the United States that make less and receive less annually than $500. You will be interested perhaps in knowing that 53 percent of the farm families of the entire United States receive less in a year than $1,000. How much do they pay in taxes? The Treasury Department tells us that they pay from 18 to 22½ percent of their income in hidden taxes.

Mr. McKEOUGH. Will the gentleman yield?

Mr. CARLSON. I yield to the gentleman from Illinois.

Mr. McKEOUGH. I am quite sure it was not the intention of the gentleman from Kansas to indicate that only those who were incorporated in his statement relative to farm income were the only ones who paid the hidden taxes, and that they were the only ones with an annual income of a thousand dollars or less. That applies also to every family whether they live on a farm or in the city.

Mr. CARLSON. The gentleman is absolutely correct. If I left that impression I did not mean to leave it.

Mr. DOUGHTON. Mr. Chairman, will the gentleman yield?

Mr. CARLSON. I yield to the gentleman from North Carolina.

Mr. DOUGHTON. I am very much interested in what the gentleman is saying because it is along the line of what I have been thinking. There is not only a serious danger but there is a great probability that in this necessary national-defense program a great many appropriations were made that are not essential to national defense, although made in the name of national defense.

Mr. CARLSON. That is right.

Mr. DOUGHTON. That is the fear I have, and it is a very serious fear.

Mr. CARLSON. I have heard our distinguished chairman discuss this so many times there is no question as to his attitude on it. The only thing is that we have to begin thinking seriously about this problem. I may say that we have been under pressure from chambers of commerce and groups at home. All are insisting on Federal expenditures. But in my opinion, when this pay day hits, there is going to be a different attitude in this Congress, and I am sure it will be for the best interests of our country and our Government.

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from Iowa [Mr. GWYNNE].

Mr. GWYNNE. Mr. Chairman, there are some things in this bill which I wish had been written differently. If it were possible to do so, I would like to offer certain amendments. However, on the whole, I believe the Ways and Means Committee has written a reasonably good revenue measure.

A very few figures will demonstrate the urgent need of some additional taxation. According to figures presented by officials of the Treasury Department the expenditures for the fiscal year beginning July 1, 1941, will be approximately $19,000,000,000. Of that sum there will be required for the Army, Navy, and for expenditures under the lease-lend law about $12,700,000,000. Of course, the authorizations and appropriations for national defense are much higher, and if our production program can be speeded up the amount actually required will be much greater. The estimated tax collections for 1942, under existing law, are $9,225,000,000. This is exclusive of $712,000,000 to be received as social security payments. So if we add the $3,500,000,000 to be collected under this bill, the total expendible revenue for the next fiscal year will be about $12,725,000,000. In other words, the very best we can figure is that we will collect about two-thirds of the money we need by taxation, and one-third will be added to the growing debt. Assuming the national income will be about $87,500,000,000, approximately 25 percent of it will be required to pay national, State, and local taxes.

However, that does not give the complete picture. If the war continues abroad, expenditures will greatly increase. However, the ability to pay taxes may not increase in proportion. The concentration of activities in a few industries and in a few localities is bound to create serious dislocations elsewhere. The failure to get necessary raw materials may result in drastic curtailment of production in some lines. The sudden increase in our national activities due to preparedness will bring with it many problems that will either cost the Government money or prevent a normal and proportional increase in tax revenues.

In a word, we are now faced with a serious financial problem that is bound to get worse as time goes on. There will be other tax bills and many more appropriation bills. No stone should be left unturned in our effort to keep the Nation on a sound financial basis. The following propositions suggest themselves:

First. The income tax base might will be broadened.

An examination of the tax returns indicates that the taxes are paid by a relatively small number of people. There must eventually be a tapping of new sources of revenue. It is true that practically everyone now pays something in the form of hidden taxes on the necessities of life which he consumes. If every such person were under obligation to make some direct contribution to the Federal Government, even though small, it would at least create more tax-conscious people. There will never be much hope of getting on a sound financial basis until the people discard the fantastic idea that they can get everything they want from the Federal Government and not have to pay for it.

Second. There should be a drastic reduction in nondefense expenditures.

It is true, something has been done along this line, but it is difficult to see why a further reduction should not be made. Of course, the question is asked immediately, Where are you going to cut? The answer is, everywhere. Why is it still necessary for such an elaborate W. P. A. set-up? Some reports from my State indicate that farmers are looking for help even while new W. P. A. projects are being promoted. If relief expenditures cannot be reduced to a minimum now, when can they? The same thing is true of many other expenditures. If the Congress should now decree a 10-percent reduction in all nondefense expenditures for the next fiscal year, it would effect considerable savings. With a few necessary adjustments such a saving could be accomplished.

Third. Certain functions of the Government should be greatly restricted or even eliminated.

We are now considering the advisability of moving certain bureaus to other parts of the country. It is too bad we do not at the same time see how many may be eliminated altogether. For example, millions of dollars are being spent in disseminating useless propaganda. There are other bureaus not necessary to the proper functioning of the Government, even though they may be of some benefit to certain small groups of people. The time has come, however, when the question is not what would we like to have, but what can we afford to have? I am confident that a proper committee having power to act could weed out much unnecessary personnel and effect considerable saving without injuring the operation of the Government.

Fourth. Further expenditures for defense purposes should be carefully scrutinized.

Practically everyone in the country is in favor of the national defense. They are willing to make great sacrifices in order that we may have the necessary ships, planes, and guns. Unfortunately, under the guise of national defense a great deal of money will be spent unnecessarily. A glaring example is the proposed St. Lawrence waterway. The best engineering advice available estimates that such a project could not be completed in time to aid us in the present emergency. We have no extra money nor manpower to tie up in such a project now. After the crisis is over there will be plenty of time to give the matter real consideration on its merits.

No one objects to spending money for the necessary equipment and building projects necessary to the building and maintaining of an army and navy. It is all too apparent even now that there is inefficiency and extravagance in this program. There is no reason why the Federal Government should not get 100 cents on the dollar in its expenditures just as private individuals and corporations do. Of course, time is of the essence. But why are plans not ready at all times for emergencies? What, after all, does the Army do during times of peace? No one can read the statements of our colleague the gentleman from Michigan [Mr. ENGEL] without being impressed with the unnecessary waste and extravagance.

Fifth. There should be a reorganization in the executive department of the entire defense effort.

Congress, after all, can do little more than to make available the necessary funds. The translation of the people's money into equipment is a job for the executive department. Results so far obtained have been disappointing. There is much confusion, much red tape. It will not be possible for any one man to supervise this gigantic effort. More authority should be delegated to men whose past experience in business and industry has demonstrated their ability. Most of us are agreed that the social gains of recent years should be retained. However, the principal objective now should be to build up the national defense. Failing in that there will be no social gains.

This is no time to be encouraging warfare between the various groups in our country or between the Government and any class. The entire resources and efforts of all the people are needed. A reorganization of many departments of the Government, together with a clear and candid statement of our objectives, both abroad and at home, would do much to promote national unity.

There is one item in the bill which, I believe, needs further study. That is the levy on billboards. I have been advised that the levies originally reported would virtually destroy certain companies now doing considerable business. The amendment to be offered by the Ways and Means Committee will afford some relief. This is, after all, a new tax. Before final agreement is reached there should be given an ample opportunity for all interested parties to express their views. It is to be regretted that the rule adopted by the House does not allow a thorough examination of the subject. That will, no doubt, be done before the inevitable conference agreement is adopted. Certainly the Congress should not deal unfairly with this industry in which a great deal of money has been invested and which gives employment to a large number of people.

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from Michigan [Mr. MICHENER].

Mr. MICHENER. I am prepared to vote for this bill as it is reported by the committee. A unanimous report from a committee should always have considerable weight in the House. The committee unanimously voted to report this bill to the House. Then several members of the committee joined in "Individual views of certain members." Then the minority members of the committee joined in "Supplemental views of the Republican minority." There was no adverse report of the committee to the bill.

The fact that the Ways and Means Committee unanimously, as I understand, asked for a closed rule that would prohibit changing the bill as reported by the committee would seem to make conclusive my interpretation of the committee's attitude.

It is not claimed that this is a scientific tax bill. A number of sound principles of taxation, as these principles have always been accepted in this country, have been violated. The necessities of the Treasury make it imperative that as much revenue as possible be raised for the current year. The Ways and Means Committee has searched every available place where any additional tax money might be found. Indeed, this bill taps every encouraging source, regardless of precedent. The gentleman from Pennsylvania [Mr. RICH] for the last 8 years has been asking the same question, Where are we going to get the money? This bill is, in part, the answer.

The country must not get an idea that this bill solves the tax problem. If I read the future correctly, there will be another tax bill before the Congress prior to the date the income tax due in 1942 is payable. The President has indicated, and the distinguished chairman of the Ways and Means Committee has made it clear, that at least one additional tax bill in the year 1942 is a certainty.

I expect to go along with the Ways and Means Committee in supporting any reasonable tax bills. Of necessity, we must rely much upon this committee. This is no time to be partisan and this is the time when Members of Congress must think nationally and not forget that most legislation is a compromise. We cannot expect to have all these taxes

paid by the other fellow's constituents, and, by the same token, the other fellow cannot expect all these taxes to be paid by Michigan industries.

Suffice it to say that while I appreciate the unpopularity of additional taxes, I am going on record here and now to the effect that I am ready to vote for future taxes because it is either a question of more taxes or a bankrupt Treasury eventuating in inflation or repudiation.

Mr. DOUGHTON. Mr. Chairman, will the gentleman yield?

Mr. MICHENER. I yield to the gentleman from North Carolina, the able Chairman of the Ways and Means Committee.

Mr. DOUGHTON. I am very much gratified to hear my distinguished friend from Michigan say that not only will he support this bill as written but he expects to support the next bill. I suppose he means provided it is unanimously reported by the Committee on Ways and Means, like this bill.

Mr. MICHENER. If it is unanimously reported, I of course will be inclined to give great weight to the committee's judgment. If it is not unanimously reported, there will be more hesitancy. But in the final analysis, I shall study the bill and vote for it if it is equitable and does not unjustly discriminate against particular groups. Taxes are unpleasant but never so necessary in the Nation's history as at this hour.

On yesterday I voted against the rule to bring this bill before the House. On the preceding day I was ready to vote for the rule asked by the committee to bring the bill up for consideration. My change of heart was caused by the disappointing position taken by the distinguished chairman of the Committee on Ways and Means. One day he insisted that there was no possibility of making changes in the bill without destroying its continuity and effectiveness. The next day he appeared before the Rules Committee and asked that the House make a concession to those opposing the joint-return provisions of the bill. He yielded to the philosophy that a pressure group, even though small in number, if sufficiently voluble should be singled out for preference and consideration not given to other groups materially affected by the provisions of a tax bill. The change of front made by the usually courageous chairman really grieved me, to say nothing about being surprised and shocked.

The gentleman from North Carolina, during his long service down through the years, has always been considered a people's man. On many occasions he has addressed the House in the advocacy of, as well as the defense of, what he calls the common man. The little fellow in business, the little fellow in tax lore, has always been the object of his solicitation—at least in the debates on the floor of the House.

In these circumstances, it was distressing to find this great chairman yielding to political expediency, and with hat in hand—and I imagine with his usual Chesterfieldian grace—submitting to the demands of a small group of influential married persons who might have to pay a little more tax on the combined family wealth than they would have to pay under existing law; in other words, yielding to the classes as against the masses.

Of course, we all make mistakes, and we must not be too severe on the distinguished chairman, because of what has happened within the last day or two. Because of this incident I am not ready to lose faith in him or abandon hope for him. I hope, however, that when the next tax bill comes in the chairman will have regained his usual rugged independence and that he will hold the fort, resist temptation, and absolutely refuse to temporize with expediency when dealing with the rights of the taxpayer. The chairman is on his feet, and may I ask him: Will the gentleman do that?

Mr. DOUGHTON. I will, according to my conception of what is the best method of accomplishing that end. And as to my friend, I will say about him that he is always consistent and generally right.

Mr. MICHENER. I thank the gentleman for those kind words, and I now yield to the distinguished gentleman from Minnesota.

Mr. KNUTSON. I would say to the chairman that if the gentleman from Michigan were not generally right he would not be a Republican.

Mr. DISNEY. That is a rebuttable presumption.

Mr. KNUTSON. And when the gentleman from Michigan [Mr. MICHENER] says he might support the 1943 tax bill without examining it, he evidently foresees Republican control in this House after 1942.

Mr. MICHENER. The Republicans undoubtedly will come back into power in the election in 1942, if the program of the present administration, which seems to be leading us directly into a foreign war, is followed to its logical conclusion.

Mr. DISNEY. If they come back into power, under what leadership, and by what method?

Mr. MICHENER. Under the leadership of those Members of the Congress, for instance, who stand for the people, who believe in the common man, who are not willing to yield and kowtow to any dictator, pressure group, or privileged class and who have the intestinal fortitude to vote as they talk. The method will be through the legitimate exercise of the franchise in the 1942 election, subsidies, benefits, Santa Claus hand-outs, and New Deal promises notwithstanding. I think that answers the gentleman's question.

Mr. TREADWAY. Mr. Chairman, will the gentleman yield?

Mr. MICHENER. Surely, to the scholarly ranking Republican on the Ways and Means Committee and the next chairman of the committee.

Mr. TREADWAY. I want to say that if the prophecy of the gentleman from Michigan is correct, it will afford me very great pleasure to have as leader of the minority on the Ways and Means Committee under my chairmanship the able gentleman from North Carolina, who, you seem to think, is not representative of the people here today. I think he is, and I want to back up the chairman in every way I can as long as I am in the minority; but in view of the gentleman's statement, I have great hopes that the power will revert to this side of the House in the next Congress and that the gentleman from North Carolina will reverse places with me as the ranking minority man on the committee.

Mr. MICHENER. I admire the spirit of the gentleman from Massachusetts in coming to the defense of the gentleman from North Carolina. Both have served for many years on their great committee. Like husband and wife, they do not always agree, but woe unto the indiscreet individual who speaks unkindly of either in the presence of the other. Together, down through the years, they have done a pretty good job. They have such love, affection, and admiration one for the other that, except when they are quarreling over the tariff and kindred subjects, they are always in harmony.

Mr. KNUTSON. Mr. Chairman, will the gentleman yield?

Mr. MICHENER. I yield to a third member of the Ways and Means Committee, who easily qualifies for the mutual-admiration society.

Mr. KNUTSON. I was just going to suggest that we are all very fond of the chairman and of the distinguished gentleman from Massachusetts.

Mr. DISNEY. May I inquire what this has resolved itself into?

Mr. KNUTSON. We are trying to give you new dealers a chance to get your second wind. The gentleman from Oklahoma asked how we Republicans were going to get control of this Government. The American people will constitute themselves a referee in bankruptcy, and they will appoint the Republicans to salvage what is left that you have not spent. We never do get hold of the country until the Treasury is emptied, and then we have got to sweep the bottom of the bin; and just as soon as we have accumulated a good-sized surplus the people begin to long for those good old days again when they can eat without working, and they turn us out and put the Democrats back in, and then they keep repeating that formula.

Mr. MICHENER. Wait a minute. I cannot yield for a speech.

Mr. DOUGHTON. The gentleman from Minnesota will recall that there was nothing in that bin when we came into power.

Mr. MICHENER. It is a historic fact that our Democratic friends have always considered the United States Treasury as sort of a "bin." It is also traditionally true that they have usually found a well-supplied bin when they came into power. There has never been a time when there was not less money in the bin when they were retired from power than they found when they came into power.

It is not out of place to remember that when the Democrats came into power in 1913 they found a national debt of approximately $1,500,000,000. When the people returned a Republican Congress in 1919, our friends had accumulated a national debt of $26,000,000,000. Between 1920 and 1930 the Republicans, then in power, reduced that national debt by approximately $11,000,000,000, that is, the

country was never more prosperous than it was during that period. At the same time, those in control of the Government had met all obligations and paid off a billion dollars a year on the Democratic mortgage on the old national farm.

Today we are considering the enactment of a new tax bill to raise $3,500,000,000 additional taxes each year. Our New Deal friends are proceeding true to form, the principal difference being that the new dealers outdistance the Democrats when it comes to taking money out of the bin.

I am sure the American people will not forget that between 1920 and 1930 the party in power passed 5 tax bills, and each one of those tax bills reduced the amount of taxes raised and lessened the tax burden on the American people. On the other hand, our New Deal friends have been in power 8 years and have presented and passed 13 tax bills, every one of which increased the burden on our taxpayers, and especially so on the average man.

Get it clearly in your mind that this $3,500,000,000 is in addition to, and not in place of, taxes being levied under present law. Under the present law, our people will pay $9,400,000,000 for the fiscal year 1942 and when this tax bill becomes a law, they will pay $12,929,200,000, or substantially $13,000,000,000, when this bill becomes fully operative.

Now, I am not objecting to raising this tax, but the tax raised will be but 60 percent of the $22,000,000,000 which the Government will spend this year. This amount is estimated and there is no question in my mind but that since Russia has become our ally, the total will be increased above the $22,000,000,000 for the year 1942.

When our country got into the World War, during the Wilson administration, the national debt was so small, it was only necessary to raise one-third of the expenses of Government by current taxes at that time. The national debt today is approximately $50,000,000,000 and rising by leaps and bounds. The only possibility of avoiding national bankruptcy is a resort to stringent and heretofore undreamed-of current taxes. It is just a choice between financial chaos or tax discomfiture and standard-of-living sacrifice. Either course is distressing, yet there can be no question as to what our choice must be.

The gentleman from Ohio [Mr. JENKINS], a member of the Ways and Means Committee, who knows all the details of this bill, has called attention to something to which I want to revert; that is, three new kinds of taxes have been discovered and are vitalized in this bill:

First. The use tax on automobiles. Every owner of an automobile in the United States must pay a $5 tax for the year 1942 and must wear on his automobile another license plate. This is in reality a license tax because it has no reference to the value or the kind of automobile. The man who buys a $25 automobile from the dump heap must pay the same use tax as he who owns a limousine.

Second. The consumption tax; that is, an endeavor is made to limit consumption of iron and steel by the levying of almost prohibitive taxes on certain manufactured products of iron and steel. It is boldly stated that this tax will raise revenue but that the prime purpose is to limit production and consumption of these iron and steel creations. This is certainly new tax philosophy.

Third. The mandatory joint income-tax returns of husband and wife. This matter has been discussed so extensively that I shall not pursue it further, other than to call attention to the assertion of the very reliable gentleman from Mississippi [Mr. WHITTINGTON], who said in debate:

> If the provision requiring joint returns by husband and wife is eliminated from this bill, it is the view of the committee that it would be necessary to levy taxes of approximateley an additional 100 percent on those whose income lies between $2,500 and $4,000, and by about 33⅓ percent on those from $5,000 to $12,000.

The chairman of the tax subcommittee of Ways and Means, Mr. COOPER, responded that—

> Something like that might be necessary.

Again, another member of the committee, who is always reliable and usually courageous, the gentleman from Virginia [Mr. ROBERTSON], tells us that the result of this mandatory joint husband-and-wife return—

> Takes a tax advantage away from about 6 percent of the income-taxpaying couples in preference to increasing the tax burden on all other married couples and on all single persons.

Now, I do not like any of these three new taxes. However, I realize that in the days and the years that are ahead it will be necessary to tap many more heretofore unthought-of tax reservoirs if national bankruptcy is to be avoided.

Time prevents further discussion. However, the members of the committee, who have devoted more than 3 months of laborious effort to this bill, have explained in detail all of its ramifications, and when the vote comes no Member of the House can justifiably assert that he was not informed as to the details of the bill.

The draftsmanship of the bill is an improvement over many recent bills reported by the committee. The report is as clear as a crystal, and I want to join with the others in complimenting and thanking the committee.

Mr. Chairman, I ask unanimous consent to extend my remarks in the RECORD and to eliminate as much of the colloquy as seems prudent.

The CHAIRMAN. Is there objection?

There was no objection.

Mr. TREADWAY. Mr. Chairman, I yield now to the gentleman from Idaho [Mr. DWORSHAK].

Mr. DWORSHAK. Mr. Chairman, it is or should be an axiom of taxation that all taxpayers should be treated alike as to the tax levied on comparative amounts of income, and it is particularly important that this be the case under the extremely high tax rates proposed for 1941 under the excess-profits-tax law.

The excess-profits-tax law of 1940 was defective in many vital respects, but the most vital deficiency was in the failure to provide adequate relief provisions for the many situations arising where strict application of the law resulted in substantial inequities and therefore discrimination between taxpayers similarly situated as to property and income, but with differences in invested capital and base-period earnings; these differences have no relation whatever to excess profits arising from the defense program.

This situation has been and is particularly distressing to the mining industry. The effort to draft an excess-profits-tax law on a catch-all basis and without any attempt of consequence to perceive that different industries require different treatment if justice is to be done to all, has resulted in an unfair competitive burden on certain units of the mining industry.

In general, mines are either purchased or discovered. If purchased, the cost or investment to the purchaser will depend largely on market conditions at the time of purchase. If discovered, the investment will vary, but ordinarily the cost will be much less than the purchase price of a fully or partially developed mine, and certainly much less than the value of the discovered ore body.

To illustrate clearly the substantial inequities that arise under the excess-profits law, I wish to present a simple example.

Let us presume five different mines contiguous to each other and competing in the same market. The mines have exactly similar ore bodies. Each produces 100,000 tons of ore per annum.

The base period income of those corporations which were in production during all or part of the base period was at the rate of $150,000 per annum; it is presumed that those corporations which were not in production during any part of the base period would have had similar earnings if they had been in production. During the excess-profits period—say, 1941—each makes $300,000 per annum before taxes, and, presumably, each will pay to the Federal Treasury the same amount of tax.

But, unfortunately, this is only a presumption. Actually, the taxable status of each is quite different, due to accidental factors which have not even a remote relationship to true excess profits, or to any profits whatever arising from the defense program.

Mine A was purchased in 1929 at the peak of prices; it has invested capital of $3,000,000. It had base period earnings of $150,000.

Mine B was purchased on January 1, 1940; its invested capital is $3,000,000 and has no election between credit based on invested capital or base period. It must use invested capital.

Mine C was purchased in 1932, at the depth of the depression, and has invested capital of $500,000. It also had base period earnings of $150,000.

Mine D was discovered by the taxpayer, and came into operation during the base period; its base period earnings

are $75,000, and its invested capital is $250,000.

Mine E was discovered; it has invested capital of $250,000, but the corporation was not organized until January 1940. Therefore, it is compelled to use invested capital in computing its excess-profits credit.

The total of normal and excess-profits taxes to be paid by each corporation under proposed 1941 rates will be as follows:

Mine	Income before taxes	Total tax	Effective tax rate	Tax per ton of output
			Percent	
A	$300,000	$112,050	37.23	$1.12
B	300,000	104,875	34.96	1.05
C	300,000	137,425	45.81	1.37
D	300,000	162,363	54.12	1.62
E	300,000	181,175	60.39	1.81

The fact that such widely varying results are obtained in computing the tax on what is, in effect, the same income, brings forcefully to mind the absolute necessity for some form of special relief. There seems little either of equity or common sense in a rigid tax law that takes 60 cents out of each dollar of income accruing to E and only takes 35 cents from B; particularly is this true when it is considered that the profits of each are won under identical conditions.

It is conceded that from any practical standpoint, it is impossible to write into the tax bill all the provisions necessary to grant relief to all distress cases. The practical and equitable procedure is to grant broad relief powers either to an independent board, or to the Commissioner of Internal Revenue. The taxpayer should have the right of appeal to the Board of Tax Appeals.

It has been argued that such a provision would give the Treasury Department a serious administrative problem. This would not be true if the grant of power was to an independent board. Even, however, if the power be conferred on the Commissioner of Internal Revenue, and granting that the administration will be difficult, it is to be noted that the taxpayer in need of relief is also in a difficult position; and to refuse to grant him relief merely because the subject is difficult of administration is not only unfair, but considers the comfort of the tax gatherer as more desirable than the relief of the taxpayer from discrimination and a difficult competitive position.

Actually it will be much simpler in very many cases to determine what would be fair equitable relief, than it would be to try to determine all the facts and points of law involved in making the statutory computations for invested capital.

Recently, much has been heard of the necessity of increasing the production of materials entering into the defense work, and particular attention has been paid to increased production of metals.

The mining industry, as an industry, is thoroughly alive to the necessity of increasing production. When, however, as to an individual taxpayer, the result of increasing production is the payment of excess profits taxes on what are in reality normal profits, such a taxpayer is rather heavily penalized if he does give the cooperation he would like to give to increase production.

Illustrative of this statement a computation has been made of the tax result in the case of the five mines instanced above, of a 40-percent increase in output and profit. The profit of each corporation would be increased by $120,000, and the tax result would be as follows:

Mine	Increase in annual profit	Increase in tax	Effective tax rate on profit increase	Tax per ton of increased output
			Percent	
A	$120,000	$76,425	63.69	$1.91
B	120,000	76,425	63.69	1.91
C	120,000	78,787	65.66	1.97
D	120,000	81,281	67.73	2.03
E	120,000	82,200	68.50	2.07

At this point it is necessary to emphasize the essential difference between a mine and ordinary manufacturing operations. When a manufacturer of hair brushes, for instance, finds an increasing demand for his product, he can procure an increased supply of the raw materials from which the manufactured article is made. Even though he makes a lesser profit per unit on the increased production, he has undoubtedly made a true profit, and his increased activity during the period of increased demand has not operated to affect his ability to produce more hair brushes in the future.

In mining, the situation is exactly contrary. No matter how extensive an ore body may be, the amount of ore is limited. The exact number of units contained in the ore body may not be known; nevertheless, it is a fixed quantity. An increased output in one year definitely lessens the production of future years.

In the particular illustration we have here, we have assumed that under normal conditions—or rather, during the base-period years, which were distinctly a subnormal period for the mining industry—a profit of $1.50 per ton could be won, on which an average tax rate of 17 percent (average 1936–39) was levied, leaving the miner $1.245 net.

On the increased output of 40,000 tons, however, the amounts remaining to the different taxpayers, after payment of taxes, are as shown:

Tax per ton of output

Mine	Ordinary production (100,000 tons)		Increased production (40,000 tons)	
	Tax	Net to taxpayer	Tax	Net to taxpayer
A	$1.12	$1.88	$1.91	$1.09
B	1.05	1.95	1.91	1.09
C	1.37	1.63	1.97	1.03
D	1.62	1.38	2.03	.97
E	1.81	1.19	2.07	.93

A final table is appended, illustrating not only the unfair competitive condition created by the excess-profits tax but the increasing tax cost of increased production. This table follows:

Tax per dollar of profit

Mine	Ordinary production (100,000 tons)	Increased production (40,000 tons)	Average on total production (140,000 tons)
	Cents	*Cents*	*Cents*
A	37	64	45
B	35	64	43
C	46	66	51
D	54	68	58
E	60	69	63

From the above it is quite apparent that the proposed rates and provisions definitely impose an excess profits tax on normal profits, and the tax is imposed at such high rates that there cannot but be a definite reluctance to dissipating an ore-body of limited extent without even a normal profit.

Mr. TREADWAY. Mr. Chairman, I yield 15 minutes to the gentleman from New York [Mr. TABER].

Mr. TABER. Mr. Chairman, I ask unanimous consent to extend the remarks I expect to make and include therein a table or two that I have prepared myself.

The CHAIRMAN. Is there objection?

There was no objection.

Mr. TABER. Mr. Chairman, the Treasury deficit for the fiscal year ending June 30 last was $5,167,000,000. The excess expenditures for the month of July down to the 29th day was $1,117,000,000. The increase in Federal expenditures is going on at such a rate that I have not the slightest doubt that in the present fiscal year we shall have a deficit of from $15,000,000,000 to $18,000,000,000. I cannot possibly imagine a situation where the Federal expenditures will be less than $27,000,000,000 or $28,000,000,000, with the effort that is now being made to put on a defense program.

This will leave a tremendous deficit after we get through, even in the face of the enormous tax burden that is being placed upon the people. The people are going to be expected to pay anywhere from 25 to 30 percent of their gross income when you come to consider all factors, Federal, State, and local expenditures. These expenditures and the Federal deficit are very largely concealed through expenditures and advances by the R. F. C., which do not show upon the daily Treasury statement and do not show in the annual deficit. There is a program there of upward of $2,000,000,000 for the construction of defense plants that does not show. There are all sorts of other items in connection with the defense program that do not show, and that are going ultimately to come out of the taxpayer. It is manifest that as we go along, we are dissipating the resources that have been built up in the United States over a period of many years. It is apparent that when we get all through these resources are going to be dissipated down to the point where we are immeasurably weakened and are the prey of foreign powers more than we have ever been in the past. A threat of foreign

invasion and the threat of foreign military power are going to be more dangerous than it has been in the past. And in connection with this situation there has not been the slightest willingness upon the part of the Congress toward economy. There has not been the slightest willingness on the part of Congress to cut down the expenses of Government. I have made some few efforts upon the floor, as often as I felt it was possible, to get the attention of the membership, to reduce these expenditures, especially the nondefense expenditures. I have been over today the appropriations that have been made, and I am going to place in the RECORD a table showing expenditures which I believe can be eliminated entirely without the slightest trouble, without the slightest effect upon any defense program, and without the slightest hurt to any legitimate interest in the United States.

Suggested savings

INDEPENDENT OFFICES BILL, 1942	
National Resources Planning Board	$1,051,390
(A totally incompetent set-up, without any value whatever.)	
Federal Communications Commission	1,500,000
(The most incompetent management in the Federal Government; competent management could easily save this suggested cut.)	
H. O. L. C.	5,000,000
(The management of this outfit is just terrible; there is no business about it.)	
Total	7,551,390
AGRICULTURE BILL, 1942	
Bureau of Agricultural Economics	$2,300,000
(This is for additional and unnecessary expenditures in connection with the publicity activities.)	
Administration of Resettlement properties	7,000,000
(The expense of operating these things is $11,000,000, and it is absolutely ridiculous to spend that amount.)	
Forests, roads, and trails	5,000,000
Conservation and use of agricultural land resources	250,000,000
(This item must gradually and steadily be eliminated if the Government is to survive. It is distributed in a way designed to destroy the agricultural industry and the freedom of the farmer and to militate against the prosperity of those who could take care of themselves without an agricultural program. Instead of making more farmers independent, the agricultural program is making more farmers dependent every year.)	
Parity payments	150,000,000
Disposal of surplus commodities	135,000,000
(This act has been a menace to the price structure of the farmer ever since it was inaugurated. It tends to make the farmer dependent on the Government and to keep his prices down.)	
Farm Tenant Act	$52,000,000
(This act is a menace to every existing farmer. It tends to help those who do not deserve help and to destroy the farmer who is operating his own farm.)	
Submarginal land	2,278,000
Loans, grants, and rural rehabilitation	66,000,000
(This is a swindle of the worst kind and is a menace to the public. It is administered in such a way as to pauperize the people and not rehabilitate them.)	
Loans to needy farmers with R. F. C. funds	125,000,000
Total, Department of Agriculture	794,578,000
INTERIOR BILL, 1942	
Bituminous Coal Commission	$3,250,000
(This has been a useless activity all the way through.)	
Bureau of Reclamation	25,000,000
(The expenditures in this Bureau have been increased in such a way that it has become an absolute menace to the farming industry and the rest of the country.)	
Total	28,250,000
LABOR-FEDERAL SECURITY BILL, 1942	
Wage and Hour Division	$5,000,000
Federal Security Agency—general cut on account of inefficiency of management, 10 percent	500,000
C. C. C.	246,000,000
N. Y. A.	150,000,000
(This outfit is a menace to the young men of the country. It tends to demoralize them and to reduce their ideals of service.)	
National Labor Relations Board	2,900,000
(This Board has been a menace to the operations of free labor and the employment of our people. It has promoted strikes and subversive activities and should be done away with.)	
Total	404,400,000
W. P. A.	911,390,000
(This organization has no excuse for its existence whatever. It should be done away with at once.)	
Grand total	2,146,169,390

Along with that table, I am going to show, as I go along from item to item, the reason why the different items may be eliminated. Those items will total $2,146,169,390. I do not have the slightest doubt that that figure could be doubled. I do not have the slightest doubt that we could save, out of nondefense expenditures $4,000,000,000 if we went at it with the power to do it, with the power to thoroughly examine the departments and find out just what they are doing with the money.

Some of the things in connection with this tax bill are good. Those things that place a tax burden upon a greater number of people are good. The tax bill itself is good, because it tends to add to the tax burden at a time when we are running a tremendous deficit. There are items in the tax, possibilities that have been omitted, such as a lowering of the income-tax brackets which the gentleman from Kansas [Mr. CARLSON] so ably referred to a few moments ago, which would call to the attention of almost every family the necessity for cutting down the foolish expenditure of the people's money.

Mr. TREADWAY. Mr. Chairman, will the gentleman yield?

Mr. TABER. I yield.

Mr. TREADWAY. In connection with lowering the exemption, does the gentleman feel that we should lower the exemption below the point where there is any profit to the Government, just to make the people tax-conscious? In other words, if the Treasury shows that a lowering below the present figures of $800 and $2,000 for single and married people, respectively, is not of benefit to the Treasury, would the gentleman still advocate that lowering?

Mr. TABER. I am familiar to a certain extent with the actual cost to the Federal Treasury of lowering the income-tax brackets. I am familiar in a way that members of the Internal Revenue staff may not be familiar, from long practice of my own before I came here, where I had a great deal to do with was done with reference to income-tax returns and from long experience upon the Treasury Appropriations Subcommittee, where we have had to go into the operations of the Treasury and the Bureau of Internal Revenue. I am satisfied that if the amount of work that is done in checking the smaller returns is graded proportionately, that the statement as to diminishing returns that the Bureau of Internal Revenue has made to you, is not correct. I am satisfied that a very large part of those having small incomes below the figures that are now the exemption figures, receive those incomes from salaries or from wages that are practically fixed, where the checking is easy and can be accomplished with comparatively very little cost. I do not believe the lowering of the brackets to such figures as $600 for single persons and $1,400 for married persons would get you anywhere near the point of diminishing returns.

Mr. TREADWAY. Will the gentleman yield once more?

Mr. TABER. I yield.

Mr. TREADWAY. I would like to call the gentleman's attention to a statement made on this subject by the Assistant Secretary of the Treasury, Mr. Sullivan, in his testimony before the committee. It may or may not bear out the gentleman's contention, but the sentence to which I wish to refer is this:

As a result of that act—

That is, the Revenue Act of 1940, among this interminable list of revenue acts that are brought forward annually—

As a result of that act approximately 8,200,000 new returns will be filed in 1941 and there will be nearly 4,000,000 new taxpayers.

So, if these new taxpayers to the number of 4,000,000 paid any amount of re-

turn, lowering the exemption would add to the returns to the Treasury.

Mr. TABER. Oh, it would add to them, but we have already in the Treasury, in the Bureau of Internal Revenue, practically all the data on which it is necessary to check every one of these returns representing salaries and wages, as a result of the operation of the Social Security Act and the pay-roll taxes. That information is all there, and you will not find anywhere near the proportionate cost of operating the checking of these returns that you have upon other returns which are made up from scattering sources, such as applies to the large returns that are presented.

Now, there are other items involved here that, to a large extent, in my opinion, should have been considered. For instance, the cigarette tax. There is not any question but what cigarettes are paying a very large portion of the tax. On the other hand, in spite of the increase in local taxes that has been imposed upon cigarettes in the last 5 or 6 years, the consumption has steadily increased. You are not getting to the point of diminishing returns, at a time when the solvency of the Government depends upon tax returns as vitally as it depends today, so long as the consumption continues to increase. Therefore it is apparent that this item could today take an increase just as the wine industry has been asked to take an increase of from 50 to 150 percent, just as the liquor industry has been asked to take an increase of approximately 20 percent, and just as many other items have been brought in for new taxes.

Mr. ROBERTSON of Virginia. Will the gentleman yield?

Mr. TABER. I yield.

Mr. ROBERTSON of Virginia. On the subject of taxing cigarettes, has the gentleman read the testimony before our committee concerning the situation of the tobacco farmers of the country?

Mr. TABER. I have read some of it. I have not read all of it.

The CHAIRMAN. The time of the gentleman from New York has expired.

Mr. TREADWAY. Mr. Chairman, I yield the gentleman 5 additional minutes.

Mr. ROBERTSON of Virginia. Will the gentleman yield further?

Mr. TABER. I yield.

Mr. ROBERTSON of Virginia. If the gentleman will read all the testimony, I think he will be convinced that the tobacco farmers are in a deplorable situation, which would be made worse by any further increase at this time in the tax on cigarettes. It was not to protect the big cigarette manufacturers, who, as the gentleman says, have increased their business and enjoyed profits that the committee acted in not imposing additional taxes at this time on tobacco, but it was so as not to depress further those farmers dependent solely upon tobacco to make buckle and tongue meet.

Mr. TABER. As I understand the situation, it is something like this, and I want to be corrected if I am wrong.

Mr. DOUGHTON. Mr. Chairman, will the gentleman yield for a short observation right there?

Mr. TABER. If the gentleman would let me answer the suggestion, I will yield in a moment. As I understand it, the situation is something like this: In 1934 the tax on cigarettes was about the equivalent of 6 cents a package.

Mr. DOUGHTON. How is that?

Mr. TABER. In 1934 the tax on cigarettes was about the equivalent of 6 cents.

Mr. DOUGHTON. I believe it was 3 cents.

Mr. TABER. Very well, we will say it was 3 cents. Today it is 3½ cents. In 1934 the price of cigarettes was two packages for a quarter, or 12½ cents a package. They sell over the counter today for 16 cents, or an increase of 3½ cents. The increase in the tax was one-half cent. On this picture it does not seem to me the tobacco grower should get less for his tobacco, but more than he has at any time.

Mr. DOUGHTON. That shows very clearly that the cigarette manufacturers cannot take care of themselves and that any increased burden goes either to the consumer, as the gentleman has just indicated, or is charged back to the producer of the tobacco.

Mr. TABER. The increase in price is 3 cents more than the increase in the tax.

Mr. DOUGHTON. Will the gentleman yield to permit me to make a short statement?

Mr. TABER. Certainly.

Mr. DOUGHTON. The gentleman I know is fair and I always respect his views about matters. I do not think he gives as much study to taxes as we do, and we do not give as much study to appropriations as he, but I have great respect for his ability, integrity, and knowledge.

It has been estimated that an acre of tobacco that is processed and converted into cigarettes pays a tax of $1,100. That is a pretty lively tax on an acre. The farmer at best gets no more than $200 for tobacco on which the Government gets $1,100. That was shown before our committee.

Mr. TABER. I noticed some of that testimony as I went over the hearings. On the other hand, however, I am familiar with the increase in the spread, that is the price has gone up considerably more than the tax has gone up; in other words it is seven times as much; and this has impressed me as meaning that if the industry were operating properly—and I am sure all the big tobacco companies have made a considerable profit right straight through the years because I have seen those reports in the newspapers—if the industry were operating properly more of the tax could be absorbed by this industry. I say this with a feeling, of course, of the utmost desire to be fair to the grower.

Mr. TREADWAY. Mr. Chairman, will the gentleman yield for an inquiry not related to the tobacco tax?

Mr. TABER. Yes.

Mr. TREADWAY. I should like to have the gentleman during the time he has the floor express his opinion on the idea I suggested in my remarks yesterday that there should be some coordination between the Ways and Means Committee and the Appropriations Committee in the matter of raising revenue to meet the appropriations made by the committee of which the gentleman is such a distinguished member.

[Here the gavel fell.]

Mr. TREADWAY. Mr. Chairman, I yield 2 additional minutes to the gentleman from New York.

Mr. TABER. Answering the gentleman from Massachusetts, I may say I believe there should be close cooperation between the Appropriations Committee and the Ways and Means Committee. In normal times we should not here in the Congress attempt to appropriate large sums of money unless the revenue is in sight to meet the appropriations. I appreciate that when you come to the defense situation, the defense of the United States, we have got to dig in and appropriate a lot of funds that are not in sight except from borrowing. I regret that this situation exists, but it does.

Mr. DISNEY. Mr. Chairman, will the gentleman yield?

Mr. TABER. I yield.

Mr. DISNEY. What is the gentleman's judgment about the way appropriations are handled? Is it not a mistake to separate appropriation bills into divisions instead of having one appropriation bill?

Mr. TABER. I think it is impossible for any appropriation subcommittee, or any committee, to cover every single item. I am satisfied that the only way we can get anywhere is by going at it the way Martin Madden did when he reorganized the Appropriations Committee in 1920. Martin Madden absolutely refused to appoint anyone to a subcommittee who was specially interested in procuring appropriations along the line handled by the subcommittee. For instance, if a Member lived in a district where there was a navy yard, Mr. Madden would never consent to his appointment on the naval subcommittee; and so on down the line.

Mr. DOUGHTON. Mr. Chairman, I yield the gentleman 2 additional minutes and ask him this question. His views and mine are very largely similar with respect to greater economy in government, but is it not true that if not a dollar were being appropriated out of the Treasury for normal expenses we could not reasonably raise enough by taxation to pay as we go the national-defense program.

Mr. TABER. We could not do it.

Mr. DOUGHTON. Even if we did not have a dollar of normal expenses.

Mr. TABER. On the other hand there should be greater economy and greater efficiency on the part of those who are spending the defense funds. We should get rid of the claptrap. I am going to give an illustration of that which I want everyone to know about that is perfectly clear and it is within the comprehension of every ordinary Congressman like myself.

When they go to work and start a project they have to have equipment to use upon it. Instead of going out and

buying automobiles, trucks, and other equipment that have to be used upon that project at the low prices the Treasury Procurement Division has procured for all Government equipment for it to work with, they enter into a lease for the equipment on a monthly basis, letting the seller or the lessor—that is, the local dealer—figure the stuff in at the full retail price, plus insurance, plus license fees, plus 1-percent-a-month carrying charge for financing and all that sort of thing; so that when they get through they have about double what they ought to for the job. I do not like that way of doing business.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield the gentleman 1 additional minute.

Mr. DISNEY. What means does the Appropriations Committee have for knowing what is going on in the departments with reference to the money that the Appropriations Committee has expended?

Mr. TABER. Only when they come up for an additional appropriation, then we question them.

Mr. DISNEY. The Appropriations Committee has no independent staff of its own?

Mr. TABER. No; it has not. Congress has no such staff. We also have what investigation the Military Affairs Committee and the Naval Affairs Committee are able to make from time to time of these different operations. As far as the defense program is concerned that is all we have.

Mr. DISNEY. In other words, you take the word of the departments for all their expenditures?

Mr. TABER. Yes.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield such time as he may desire to the gentleman from Virginia [Mr. ROBERTSON].

Mr. ROBERTSON of Virginia. Mr. Chairman, few who have not read the more than 1,500 pages of the printed hearings of the Ways and Means Committee on the pending tax bill fully appreciate the magnitude of the task confronting the committee in the preparation of a bill to add not less than three and one-half billion dollars to the present Federal load of approximately $9,400,000,000. In presenting Treasury recommendations, the Secretary of the Treasury described his recommendations as being unparalleled, but presented in an unprecedented emergency. The fullest opportunity was given by the committee to all interested parties to present their views, not only on the Treasury recommendations but on any other pertinent and germane subject, of which 202 witnesses availed themselves, including representatives of large business, farm and labor organizations of the country, consumer groups, tax experts, and economists of national repute. The hearing of this testimony consumed five laborious weeks, but in the opinion of the committee it was time well spent.

It is unfortunate that there are some who do not clearly understand our method of approach to tax legislation. In that method there is no place for partisanship or pride of opinion nor occasion for conflict between what tax experts of the executive branch of the Government want, and what those of us designated by our colleagues to study tax matters want. What all of us want, or at least should want, are facts, and when in possession of the facts it then becomes the exclusive function of the representatives of the legislative branch of the Government to pass on the question of policy. And in our search for facts we realize that it is quite impossible, in a nation as large, as wealthy, and as diversified as ours, for any one tax expert to know how any given tax proposal will affect every taxpayer to whom it may be applied. Therefore, our committee has given effect to the philosophy of the old couplet:

> The butterfly beside the road
> Preached contentment to the toad;
> The toad beneath the harrow knows
> Exactly where each tooth point goes.

When on the spur of the moment our committee has decided to include in a tax measure some new proposal which had not previously been studied by our tax experts and on which no testimony has been given by those to be affected, we have usually run into unexpected difficulties. That statement alone should serve as a sufficient answer to any critics of the pending bill who say that the committee should have made provision in the bill to raise more than three and one-half billion dollars. We entered upon the difficult task of framing a three and one-half billion dollar tax bill on the assumption that expenditures would not exceed $19,000,000,000, and that a revenue for the coming fiscal year of twelve and one-half billion dollars would finance approximately two-thirds of anticipated Government spending for that year. Hearings had been completed and much spadework done in executive session before the committee was advised that both appropriations and expenditures for defense would largely exceed the previous estimates. In that dilemma the Treasury recommended, and the committee, of necessity, concurred in the recommendation, that no effort be made at this time to reach a larger objective than three and one-half billion dollars, although all and sundry were put on notice that we face the necessity of imposing still additional taxes next year, but not to apply to incomes earned in the calendar year of 1941.

Even today, no one with mathematical exactness can predict what the amount of defense expenditures in the current fiscal year will be. Officials of the O. P. M. say that to do the job in hand, defense expenditures should reach the level of $2,000,000,000 per month, which is approximately 100 percent higher than the present rate. Treasury experts do not believe that figure can be reached. Their latest estimate of fiscal 1942 expenditures, including nondefense items, is $22,000,000,000, of which a tax revenue of $13,000,000,000 will be approximately 60 percent. My personal hope is that we not only reach, but reach within the near future, a monthly expenditure of $2,000,000,000 a month for defense alone, because when I voted for defense appropriations that now total more than $50,000,000,000, I did so because I felt we face the gravest emergency in our national history. The mere appropriation of money does not provide for our national security. Those funds must be translated into equipment and trained personnel. And when I voted to report the biggest tax bill in the history of the Nation and rise today in support of its passage, I do so because I believe that his personal freedom is the most cherished possession of every American citizen, for the preservation of which he is ready, able, and willing to make any necessary sacrifice. While I do not seek by any means to justify all appropriations made for nondefense purposes—on the contrary I have worked and voted to reduce nondefense appropriations and regret my efforts in that behalf were not more successful—at the same time, it is only fair to point out that revenue from existing tax laws will balance the nondefense budget, and. therefore, the pending tax bill is actually what we claim it to be—a defense-tax program. And while we found no appropriate way of writing into the bill the fact that these additional taxes imposed for defense purposes are to be treated as emergency taxes of a temporary nature and not permanent taxes, that is the unanimous sentiment of our committee, which we hope will be the attitude of some future Congress when the pending emergency has been safely ended.

Before undertaking to discuss in detail the phase of the pending bill relating to the taxation of corporations, I feel it pertinent to make just one more general observation. When the Treasury submitted to us its recommendations for a new tax bill, there was considerable newspaper comment to the effect that tax gatherers never had any new ideas concerning taxation and always, in seeking additional revenue, proceeded to increase the burden of those already paying taxes. Now, that the Ways and Means Committee has introduced into the tax bill some new ideas and some new subjects of taxation, the prevailing comment is we are proposing to work some grave injustices, including the stabbing of certain innocent and unsuspecting people in the back—a procedure referred to in some quarters as political logrolling, and in others as reprehensible cowardice. But it may interest some of my colleagues to know that a disinterested group of tax experts, sponsored by that outstanding adviser on taxation, the Commerce Clearing House, Inc., have brought out a new book entitled "Principles of Public Finance," of which Mayne S. Howard is the editor in chief, in which is listed all the proper subjects of Government taxation. I have taken the trouble to study that list of taxable items in connection with the charge of no new ideas and have found that these experts list only one method of taxation not already covered by State or Federal legislation, including the pending bill, namely, a capital levy, defined by them as a once and for all ad valorem tax on capital at a rate which is in excess of the annual return from capital, a rate high enough to reduce the amount of the principal. As to that tax those experts say it "might be defensible" in time of war, and add it is the last step before repudiation of the public debt.

The Wall Street Journal, in its issue of July 29, lists certain complaints concerning the pending bill, including the charges:

First. It does not produce sufficient revenue, a charge I have already answered, to which may be added my personal guess it will produce $500,000,000 more than current estimates.

Second. That the excise taxes fall short of being a brake upon the consumption of material needed in the defense program.

Third. The present exemption from estate taxes of $40,000, plus an additional $40,000 of insurance, is too high, and the $40,000 exemption from gift taxes, plus $4,000 a year to an indefinite number for an indefinite period is likewise too high.

Fourth. While not listed by the Wall Street Journal, criticism in some quarters has been leveled at the provision for mandatory joint returns which takes a tax advantage away from about 6 percent of the income-taxpaying couples in preference to increasing the tax burden on all other married couples and on all single persons.

There has been a minimum of criticism of the plan carried in the bill for the taxing of corporations, due in part no doubt to the fact that corporations in the past fiscal year paid a total income tax of $1,852,000,000, excess-profits tax of $164,000,000, and a capital stock and declared value excess-profits tax of $204,000,000, or a total of $2,220,000,000, to which must be added pay-roll taxes under the Social Security Act amounting to $514,000,000. The pending bill will add to that tax burden, exclusive of payroll taxes, additional income taxes of $125,000,000, excess-profits taxes of $1,198,000,000, and a capital stock tax of $22,000,000, a total of additional taxes of $1,345,000,000. It is to be noted that previous taxes are computed on the basis of fiscal year 1941 and the new taxes are computed on the basis of business expected to be done by corporations for the calendar year 1941. With increased business in the calendar year of 1941, taxes at existing rates will produce more revenue than was produced for the fiscal year of 1941. At a rough estimate, therefore, under the pending bill the combined taxes on corporations, exclusive of pay-roll taxes, for the calendar year of 1941 will be in excess of $4,000,000,000. As to pay-roll taxes we must not lose sight of the fact that in 1943 the present pay-roll taxes automatically increase 100 percent, going to a combined rate of 4 percent, plus, of course, the 3 percent additional tax for unemployment compensation. There are some who contend that the pending bill does not tax corporations enough and that by adopting the Treasury recommendation of excess profits computed on invested capital alone, plus the committee plan of computing excess profits before deducting the normal tax, an additional revenue of $300,000,000 could be raised from corporations. The charge can be sustained that the Treasury recommended an additional burden upon personal income of a billion and a half dollars, while the committee imposed an additional burden of $1,150,000,000; the charge can be successfully made that the Treasury recommended additional excise taxes in the sum of $1,200,000,000 and the committee imposed only $900,000,000; the charge can be successfully made that the Treasury recommended an additional burden of approximately $300,000,000 on estate and gift taxes and the committee imposed only $152,000,000; however, the charge cannot be successfully made that the committee did not impose as much tax burden upon corporations as was recommended by the Treasury Department. On the contrary, the committee bill will take from corporations approximately $445,000,000 more than the original Treasury recommendation, but by employing the alternate method of computing excess-profits taxes, the committee feels the proposed tax burden will be more justly and equitably distributed than under the Treasury plan. In confirmation of that assumption I need but call attention to the fact that when it was reported the committee would reconsider the action taken to permit the alternate plan, I received, in the course of 2 days, more than 300 telegrams from all sections of the Nation urging us to retain the committee plan for the taxation of corporations. There was not a single representative of industry who testified before our committee in behalf of limiting corporations to the use of the invested capital plan for computing the excess-profits credit. Many appeared before us in opposition to the plan. The burden of the testimony on this subject before the committee, and of the letters and telegrams received by committee members, was to the effect that the corporations of the country did not object to bearing their full share of the defense-tax burden but did object to the Congress writing into the tax laws a provision concerning excess-profits taxes which would impose wartime rates upon normal earnings and thus, in effect, penalize successful operation.

It was frankly admitted by the sponsors of the Treasury plan that they desired to place heavier taxation upon those corporations that enjoyed large average earnings during the base period years of 1936–39, even when their present earnings show no increase, thus demonstrating that they are receiving no benefits from the defense expenditures. These earnings, however, the sponsors of the Treasury plan deemed to be excessive. But the committee, while frankly admitting the impossibility of the task of framing any excess-profits tax law free from all inequalities and hardships, took the position that only war profits should be taxed as war profits, and consequently it limited the excess-profits phase of the current tax on corporations to that principle. The thought was well expressed by James F. Stiles, Jr., vice president-treasurer, Abbott Laboratories, who, in testifying before our committee, said:

> I am convinced that while it is necessary for Congress to levy, and all of us to pay, all the taxes that can be raised, it is not their intention to tax normal profits of any company as excess profits, when it is possible to determine what are normal profits.

On the subject of the greater fairness of the alternate methods of computing the excess-profits credit the committee report states:

> Your committee has retained the excess-profits tax structure which was established in the Second Revenue Act of 1940. The allowance of the alternate methods of computing the excess-profits credit—that is, either the invested-capital method or the average-earnings method—has been justified by experience. The soundness of the policy of allowing the computation of the credit on the basis of average earnings appears to your committee to have been adequately demonstrated.
>
> A method for computing excess profits based upon invested capital alone will penalize many corporations and favor their competitors. For example, a corporation organized in a period of low values would be discriminated against in favor of a corporation organized in a period of high values. Compare, for example, a corporation organized in 1929 with a corporation organized in 1931. The identical assets may have been turned in to each corporation. Yet such assets may be reflected in invested capital of one corporation at many times the value it would have in computing the invested capital of the other corporation. In the summary of the testimony before the War Policy Commission, House Document No 271, it is stated in reference to invested capital that, "In some cases mere accidents of incorporation in one year, instead of one year later, meant savings in taxes of millions of dollars." A corporation reorganized shortly before the World War would have a higher basis than if there had been no such reorganization. The invested-capital method alone would also favor a corporation which has distributed in the past little or no dividends as compared with a corporation which has pursued a liberal dividend policy. This is because the accumulated earnings and profits of a corporation enter into the computation of its invested capital. It would also penalize the stockholders of a corporation who paid for their stock on the basis of the present worth of the corporation. It is well recognized that there has been a large turnover in the stock of many corporations. The present owners in many instances acquired such stock on the basis of the earning record of the corporation at the time of purchase. To conclude that they have realized excess profits on the basis of what the original owners paid for the stock seems contrary to equity and justice.
>
> The invested-capital method will also give no recognition to the fact that many businesses have been conservatively capitalized or built up, especially the smaller ones, not mainly from capital but from good management, skill, development of goodwill, favorable locations, trade advantages, and other important factors of personal efficiency. As well stated by the late Professor Seligman of Columbia University: "Almost all large businesses have grown from humble beginnings, and it is precisely in these humble beginnings that the percentage of the profits to the capital invested is apt to be the greatest." However, your committee felt that there was ample justification for continuing the use of the invested-capital method as an optional base. It is necessary to provide a yardstick for those corporations which had no base-period income or those which were operating on a subnormal basis in the base period. But, it is not believed that the treatment should be such as to give corporations too large an exemption of profits attributable to the defense program. Evidence before your committee conclusively showed that the invested-capital plan alone penalizes small corporations and that was accentuated by the Treasury's new rate schedule.

Upon this structure, your committee has made the following changes:

(a) Increased rates: The existing rates have been increased by 10 percentage points in each bracket, as follows:

Adjusted excess-profits net income	Rates under—	
	Existing law	Proposed law
	Percent	*Percent*
0 to $20,000	25	35
$20,000 to $50,000	30	40
$50,000 to $100,000	35	45
$100,000 to $250,000	40	50
$250,000 to $500,000	45	55
Over $500,000	50	60

(b) Reduction in invested capital credit: The invested capital credit, which under existing law is 8 percent of the invested capital, is left 8 percent on the first $5,000,000 of invested capital but is reduced to 7 percent on the balance.

I feel in frankness I should add that when a corporation computes its excess-profits taxes before deducting normal taxes the invested capital credit of 8 percent is thereby reduced to 5.6 and the 7 percent reduced to 4.9. But even that lowest figure is above the 4 percent on capital in excess of $5,000,000 that was provided in the Treasury plan.

It is to be noted, however, that no corporation escapes the new defense tax because it, in effect, raises the base rate on all corporations, adding 5 percent on net incomes up to $25,000, and 6 percent beyond that figure, and by imposing that increase as a surtax instead of a normal tax we are able to reach the income of a large amount of partially tax-exempt Federal bonds. In my opinion, all well-informed corporation officials expected an increase in the base rate and did not object to it under existing circumstances. The bill also provides a new 10-percent tax on additional profits not subjected to excess-profits tax under existing law. I prefer to give the majority opinion instead of my own opinion concerning that tax, which in the committee report is described as follows:

(d) Ten percent tax on additional profits not subjected to excess-profits tax under existing law: The existing law does not subject to the excess-profits tax earnings which are not in excess of the greater of the average earnings for the base period and the invested capital credit. Thus, many corporations which are making added profits directly or indirectly attributable to Government expenditures for the national defense are paying no additional taxes upon such profits. It is felt that such corporations, benefiting so substantially from the defense expenditures, should make a larger contribution from their increased income even though their income for the taxable year is still less than the invested capital credit.

Apparently the businessmen did not expect the change requiring the computation of excess-profit taxes before deduction of normal taxes, but I regard that as one of the soundest features of the pending bill. In that respect we follow the principle of the excess-profits-tax bill of World War No. 1, of the British law, and substantially the Canadian law. It has the virtue of going directly to the question of how much a given corporation has benefited in net income from defense spending and placing an appropriate tax upon that specific increase, thus subjecting to the excess-profit tax every dollar of excess profits.

Special treatment is provided in the bill for new capital, thus encouraging the investment of private capital in corporate enterprises engaged in the defense effort. For each hundred dollars of money or property paid in for stock after December 31, 1940, the invested capital of a corporation will be increased by $125, thus substantially increasing the invested capital credit. It will be remembered that under the existing law the cost of plant and facilities necessary in the national defense may be amortized in as little as 3 years. The bill makes no change in this respect. In addition, it continues the allowance of 50 percent of borrowed capital to be treated as invested capital.

When it is considered that the pending tax bill, in conjunction with the rates under existing law, will impose a tax burden on corporations in excess of $4,000,000,000 a year, to which must be added State and local taxes, including the 3-percent pay-roll tax for unemployment compensation, it is my opinion we have gone as far as it is safe and wise to go in financing Government expenditures from that source. For years, notwithstanding the fact that some 30,000,000 are dependent upon agriculture for a livelihood, we have been an industrial Nation, and the domestic economy of our system of free enterprise has become virtually dependent upon full employment at decent wages in industry. In a Nation which each year produces an exportable surplus of foodstuff, we are properly committed to the program that no one who makes a reasonable effort to help himself shall go hungry. Consequently, in the depression period of recent years, the Federal Government has appropriated billions of dollars for the relief of the unemployed and primarily for those that would normally be employed in industry. A tax system that either discourages full employment in industry or makes that virtually impossible is economically unsound. As previously indicated, the tax rates in the pending bill are designed to be temporary. When defense spending has ended, it will be highly essential to lower them. But even in this period of vast spending for defense, the application of priorities will hurt a large number of small corporations, and certainly it cannot be claimed that a limit on venture capital of 4.6 percent before the application of wartime taxes is going to produce any wartime millionaires.

In the preparation of this tax bill it has been my privilege to hear many representatives of industry testify, to confer with them in my office, and to read the letters they have written me concerning their tax problems. Based upon those wide contacts with representative businessmen from all sections of the Nation, I can truthfully bear testimony to the fact that they are able, efficient beyond any similar group in any other nation, and also patriotic. They have not complained about paying taxes to finance the defense program, but merely have insisted that the method of levying them be made as fair and equitable as possible. And there can be no doubt about the fact that they have put their shoulder in a wholehearted way to the essential job of producing defense material, notwithstanding the fact that an unfair and unfairly administered Labor Relations Act has subjected some of them to grievous losses and expenses from which there has been no redress, and the further fact that the provisions of the wage and hour law penalize them in overtime wages for full production. I am not unmindful of the fact that the business and the financial interests of the Nation dominated the Government from 1920 until 1930 and did it in a selfish and shortsighted manner, but they have paid dearly for those mistakes. I am not unmindful of the fact that there are still some selfish and shortsighted industrialists who do not think the laborer is worthy of his hire and whose primary concern is social security for themselves. But they are the exception that proves the rule that the businessmen of this Nation are fair and honest and patriotic, and can be depended upon in this emergency to uphold the principles of American constitutional liberty. All that I ask is that all other groups in the country, including organized labor, join in this emergency with the industrial leaders of the country in placing the public welfare and our national security first. To do the job in hand, we need as never before unity of purpose and unity of action. President Roosevelt and the Chief of Staff of our Army have not exaggerated the danger that confronts us or the gravity of this emergency.

That it is Hitler's plan to dominate the world, including our own hemisphere, can no longer be successfully questioned. Nations which sought to purchase their peace by a program of appeasement were ruthlessly overrun and destroyed. Hitler recognizes nothing except superior force, and that, of necessity, must be our answer to him. The program involves sacrifice, of which this tax bill is but a part, and small in comparison with the sacrifice made by those in the armed forces, but I mistake the temper of the American people if I am not right in assuming they would prefer any voluntary sacrifice to living in slavery under a foreign dictator.

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from New Jersey [Mr. OSMERS].

Mr. OSMERS. Mr. Chairman, America today is in great danger. There are varying opinions as to the extent of that danger in a military sense. There is absolutely no division with respect to the real danger that confronts our financial system, regardless of the outcome and future course of the present war.

Too often have democratic governments foundered on the rocks of financial insolvency. The road to fiscal ruin upon which we embarked in the early thirties is now being followed at an ever-increasing pace as huge debts pile upon mounting deficits. What lies ahead no one knows. A national debt of $150,000,000,000 or more is not beyond the realm of possibility. It is my honest conviction that the generations to follow will never even attempt to liquidate or carry

this impossible burden. It therefore becomes the duty of those of us in this generation who are charged with the responsibilities of government to face the financial facts of life and to begin on a course that will lead to solvency rather than ruin.

The committee has labored long and valiantly in framing this measure and in meeting the amount demanded of us by the Treasury Department. It can well be said of the committee and of the Treasury that their "sights have been too low." The fiscal year ahead will probably see the expenditure of $30,000,000,000 and total revenue, including the amounts to be raised by this bill, will aggregate about $13,000,000,000. A more fantastic or improper ratio is hard to imagine.

When we consider the real danger of inflation that we face, caused by a shortage of consumer goods and a rise in employment and wages, we certainly must prepare to take by taxes a larger share of the national income, if for no other reason than to check the already rising spiral.

This bill and our other tax laws will require direct payments in income taxes by only one earner out of six in the Nation. If we are to remain with a democratic form of government there must be a wider participation on the part of all of us in assuming the financial burdens of government. No wage earner, however small his income may be, should be relieved from contributing directly his mite in direct income taxes to the cost of government. Every American wage earner should pay an income tax so long as the present emergency exists. The myth of soaking the rich as a means of paying the costs of government has been so thoroughly exploded that we need not discuss it further.

Even with the present near confiscation of large incomes we are so far short of meeting our financial obligations that we must look to the great bulk of our citizens for their support.

There is contained in this bill a provision which would force a man and wife with separate incomes to file a joint return. This is not a bona fide proposal, instead it is a sly and tricky way of extorting huge tax payments from a group already more than heavily burdened. Those who have fought for the legal independence of women cannot but regard this proposal as a set-back that nullifies the work of many years. Why should we place a penalty on marriage? Why Congress should seek to destroy the financial independence of women through the medium of this tax bill is beyond comprehension.

When totals are considered, the amount to be raised by this provision pales into insignificance. So long as this compulsory joint return proposal is part of this bill it will not have my support.

The need for revenue from the widest possible number of citizens is so great in view of the cost of our defense program that we must not allow tax legislation to become punitive or oppressive on small groups within the population.

The fiscal needs of the Nation can best be met:

First. By strict economy in all nondefense activities.

Second. By including all wage earners as direct income-tax payers.

Third. By paying as large a portion of defense costs as possible now.

Mr. TREADWAY. Mr. Chairman, I yield 10 minutes to the gentleman from Kansas [Mr. REES].

Mr. REES of Kansas. Mr. Chairman, we are considering the biggest tax bill ever submitted to Congress at any time in the Nation's history. It is estimated that under its provisions, three and one-half billion dollars of additional revenue will be raised to help carry on the huge expenditures of our Government. Members of the Ways and Means Committee advise they have spent 4 months' time holding hearings and considering this measure. I am sure they have labored hard and long in an effort to provide an equitable distribution of the tax load which is being proposed. I think it is interesting to observe that just last week this House spent only about 4 hours considering an appropriation bill providing for the expenditure of $8,000,000,000—more than twice the amount of this bill.

Mr. Chairman, this is an important measure. I deem it extremely unfair and undemocratic to bring it to the floor of the House under what is known as the gag rule. The mere fact that such rule has been invoked on certain other occasions does not necessarily justify it here. Bills providing for the spending of money do not come up under such a rule.

This legislation is going to reach right down into the homes of the people of this country. It will affect more people, directly or indirectly, than any other tax bill we have had. We are representatives of the people. We ought to have the right, not only to discuss the measure, but to offer any amendments we believe to be for the best interests of our people and our country. The House, by a majority vote, should have the right to accept or reject amendments offered by its Members. As the situation stands, we shall vote for, or against the bill in its entirety. If we vote against the bill because of certain provisions we do not like—then we will have no additional tax legislation, and our mounting deficits will likewise be increased.

Mr. Chairman, I think it is important, too, that people who pay these taxes should understand rather definitely that with all the taxes that have been raised during the past year, including additional taxes provided a year ago—only a small amount has actually been paid on defense expenditures. The American people are patriotic. They want to do the thing that is fair and right. They want to pay the necessary expenses for the operation of the Government under which they live, and to meet any reasonable demands required to carry on the national-defense program.

At the close of our fiscal year just ended, we find our country with its greatest peacetime deficit, even though Treasury receipts for last year were the largest in history. We raised $7,600,000,000 in taxes last year. That is more than was provided any previous year, including the peak year of 1920. But, after Uncle Sam paid $6,662,000,000 for ordinary expenses of the Government, we had approximately $900,000,000 left to apply on defense expenditures. In other words, including the huge tax bill of last year, less than 11 percent was applied on defense. The other 89 percent went for regular expenses of government. The problem becomes more serious when it is observed that even larger amounts have been appropriated this year for nondefense expenditures than last year.

I have just suggested that our taxes last year were more than $7,000,000,000. Under this bill, it is proposed to increase the tax charge by one-half that amount, so our tax bill for next year will run about $11,000,000,000. It looks like a staggering load, but even then the entire amount, when collected, will only pay about half the amount we have already agreed to spend next year. Of course, this is because of the huge expenditures necessary for carrying on our defense program. As a matter of fact, the chairman of the Committee on Appropriations has told us that during the past 2 years we have either appropriated or agreed to expend approximately $50,000,000,000 for defenses, and the end is not yet in sight. The chairman of the Ways and Means Committee has advised we may expect additional tax bills, including the possibility of a general sales tax.

The people of this country want a strong, effective defense program. I believe they are willing, insofar as they can do so, to pay for it. But, Mr. Chairman, we are entitled to have a dollar's worth of value for every dollar expended for governmental as well as defense purposes. Let it be observed, also, that, while Congress appropriates the money, the spending is done through administrative channels. Time after time Members have pointed out the extravagant manner in which a great share of the funds are being used. The President has called upon the people of this country to sacrifice in support of our defense program. The least our Government can do is to see that these funds are judiciously expended and savings effected where possible in the interests of good government. The Secretary of the Treasury advised the Ways and Means Committee several weeks ago that after careful study he believed at least $1,000,000,000 could be saved in our nondefense appropriations. Not one thing has been done in an effort to save even part of that sum. As I just pointed out, nondefense expenses are greater than ever. On the occasions when some of our Members have tried to cut expenses where they would be least harmful, some bureau or organized group would oppose it.

Let it be understood that I am not in favor of cutting any expenditures that will in anywise injure our defense program, but I do say that large sums being spent for and in the name of national defense could be more wisely and judiciously used and expended.

Mr. Chairman, I believe that if this Congress would determine to do so, it could, without injury, save millions of

dollars that have been appropriated for nondefense expenses of our Government, and could also see to it that millions of dollars which have been appropriated for defense purposes could be more economically expended.

Let me give you a few specific instances of the manner in which the taxpayers' money has been expended in the name of national defense.

Our Government is now building a beautiful scenic highway across a half dozen Southern States which, when completed, will cost about $60,000,000. This highway, or parkway, as it was called, was begun about 4 years ago. It will be completed in about 3 or 4 more years. The last appropriation of $7,000,000 went through this House because it was suggested the highway was needed as a part of our defense program. It is well known to be only a scenic highway, winding through the mountains, and not suitable for military purposes.

Within the last few weeks this Congress authorized an expenditure of several million dollars for a dam somewhere in the State of Arizona. It was submitted on the ground that the project might be needed in connection with the defense program. When questioned, it was admitted the dam could not be completed and ready for use for about 4 years.

We are spending millions of dollars to erect big dams in the Northwest. They were started mostly from irrigation purposes. Now it is said we should spend more money on these and similar projects so they may be used for power in connection with the defense program. Now we have a group advocating what is known as the St. Lawrence seaway. Years ago it was advocated on the ground of commercial advantages. Now they say we should have it in order to defend ourselves against enemies about to enter our gates—and yet it cannot be completed for at least 4 years.

We have spent $7,000,000 in St. Louis for a Jefferson Memorial. The money is spent, and no memorial has been started. There would be nothing wrong with such a building if we could afford it—but $7,000,000 would buy a lot of much-needed equipment for our men in training camps.

Now, let me give you some further examples as to how some defense funds are being used. We have spent something over $800,000,000 for Army cantonments. An investigation as to costs was made under the able leadership of our distinguished Member the gentleman from Michigan [Mr. ENGEL]. It showed that because of extravagance and huge profits, $200,000,000 could have been saved in the construction of these Army camps.

Mr. Chairman, recently in a hearing before a Senate investigating committee, an official of the Todd Shipyard Corporation acknowledged his company's profits from Government ship repairs had ranged as high as 40 percent. He added that the profits made by his corporation did not compare with those made during the World War.

Mr. Chairman, just this week, the House within an hour's time agreed to spend $35,000,000 for a magnificent new building to house War Department officials and employees. This building is to be located across the Potomac River in Virginia. It was pointed out that it will cost as much as the Empire State Building in New York. It will be the Government's most expensive building, costing more than any Government building in Washington—3 times as much as the palatial Supreme Court Building. Why not erect a temporary building near the present site as first suggested, and save most of the $35,000,000 for airplanes, guns, and other equipment? Thirty-five million dollars would build about 150 bombers. It would build 750 pursuit planes. Furthermore, Mr. Chairman, just to show how some of this business is transacted, we are informed through the morning papers that the Budget Director has stated the plans for this magnificent building were submitted by the War Department without study either by his office or the Planning Commission, and only brief hearings on the project were conducted by the House committee. Furthermore Mr. Chairman, I believe it is hoped the increase in personnel is temporary and when reduced again, such a building will not be necessary.

Mr. Chairman, in view of world conditions, I am in favor of spending just as much money as necessary to carry on our defense program. I think we should arm, and "arm to the teeth." We should increase our Navy and provide our Army and air force with the best kind of modern equipment and do it just as promptly as possible. We ought to provide such defenses for our country that no nation would want to attack us, and we ought to see to it that our country gets rid of all kinds of subversive activities.

Mr. Chairman, we need a higher degree of cooperation and a better understanding of the seriousness of this situation among the people of this country. We must be more careful in the expenditure of the huge amounts appropriated, and see to it that the taxpayers' money is not wasted or used extravagantly.

Mr. Chairman, we are not in very good shape to ask the hundreds of thousands of boys to leave their homes and employment to serve in our armed forces and to sacrifice their lives if necessary, unless we are willing to forego personal benefits we might expect to receive from the huge Government expenditures. Above all things, we must create an atmosphere of unity and cooperation among our people, with the realization that in order to have an adequate defense program, it can only be accomplished by working together for the common good of all.

Mr. TREADWAY. Mr. Chairman, I yield 5 minutes to the gentleman from California [Mr. ROLPH].

Mr. ROLPH. Mr. Chairman, representing the Fourth District of California, I urgently hope you will vote against the mandatory joint income-tax provision as called for in this bill.

The feeling in my district is unanimous. I have not received a single letter, telegram, or post card in favor of it.

Indicative of the widespread sentiment and typical of expressions received from scores and scores of individuals, groups, and organizations, I quote herewith a resolution adopted in San Francisco by the State Bar of California. It reads as follows:

> Whereas the Federal Government, through the House of Representatives Ways and Means Committee, proposes to eliminate separate income-tax returns by husband and wife and to require joint returns; and
>
> Whereas in the considered opinion of the board of governors such an act would prove to be illegal: Now, therefore, be it
>
> *Resolved*, That the board of governors of the State Bar of California, vigorously opposes the proposed joint income-return amendment to the Federal income-tax law, and urges that the members of the California congressional delegation exert every means at their disposal to defeat this amendment and to maintain the practice of separate returns.

California feels the proposal is manifestly unfair. Our State is one of those having forward-looking progressive community property statutes. The wife is, in effect, an equal partner in all community holdings acquired after marriage.

With us, the title to community earnings, which include the earnings of the husband, and also those of the wife if she be employed, is by law vested equally in the husband and wife.

It is only right and proper that taxes should be levied with due consideration for the legal title to the income established by law.

It is manifestly unfair to tax a person for income that does not belong to that person and it seems unjust for the Federal Government to maintain said income belongs jointly to husband and wife, whereas, legally, each has a one-half interest in such income.

While everybody realizes under the National Defense Act taxes are bound to be heavy, still the added burden should be borne by all classes of society and the married couples should not be singled out to carry a heavier load than those who are not joined in wedlock.

This proposal is unfair and should be deleted from the bill. It is in no way a measure of national defense. As a matter of fact, it is a step backward and decidedly contrary to the traditional American policy of treating women on an absolute equality with men.

I earnestly hope it will be defeated in fairness to the womanhood of the Nation.

Mr. TREADWAY. Mr. Chairman, I yield 5 minutes to the gentleman from Michigan [Mr. BRADLEY].

Mr. BRADLEY of Michigan. Mr. Chairman, I appreciate the hour is very late, and I shall not detain you very long. You have heard a great many arguments for and against this tax bill. You have heard many statements made as to the wasteful extravagance of our Government at the present time. I want to dwell simply on that one feature, and, perhaps, on one angle of that feature of extravagance whereby we are again reducing our good friend, Uncle Sam, to his customary role of Uncle Sap. We have been lending a great deal of money to South America under what we are pleased to call our pan-American solidarity plan. We have loaned them money to purchase materials and equipment in this Nation and

in other nations, I presume, to put them back on their feet. Sometime ago, over my personal objection as well as the objection of many other Members of the House, we appropriated some $7,000,000,000 to a program known as the lease-lend bill, once again designed to pull Great Britain's chestnuts out of the fire. Great Britain has no particular love for us except for what she can get out of us. The initials A. E. F. will again stand this time, as they did the last time, for "After England Fails"—they call on the United States.

Under this lease-lend bill we are sending her a great deal of critical materials. In order to defend ourselves and build up our own preparedness and defense program in this country we have established priorities on certain strategic materials. I am not complaining about that for the purposes of this argument. I am not complaining about the fact that we are undergoing sacrifices on the eastern seaboard with respect to gasoline in order that Canada may advertise in the press and over the radio for American tourists to come to Canada where they have no gasoline shortage and warning them to keep out of the New England States where there is a gasoline shortage. But I have taken this time to complain about a fact that has just come to my attention, namely, that we are now shipping to Great Britain, if you please, American tin plate on which we have established priorities in this country, and, therefore, some of us have to go without it, because that is what priority means, and we are shipping England tin plate which we are giving to her under the lease-lend bill, and what is she doing with it? Using it for defense? Oh, yes; for the defense of her dollars and for the defense of her future world trade.

England, if you please, has taken that tin plate—American tin plate—down into Latin America, into the Argentine, and in one instance I know of is selling it to Argentina people at a price lower than American manufacturers can put that same tin plate in the Argentine. Thus you see we are on the one hand loaning money to the Argentine and the Latin-American countries to make better neighbors, to increase trade, and on the other hand we are sending tin plate to England which she in turn is using to undersell our market in Latin America, not only to continue her trade with Latin America, but to put America out of that trade. Therefore, do you not see that on the one hand we are taxing the American taxpayer in order to loan money to Latin America, and to give materials to Great Britain which we are denying ourselves, in order that Great Britain, in turn, can cut us out of the Latin American market and therefore ruin our American taxpayers? Is not that funny? Do you not see how the world goes round and round? Under our screwy, screwball deal we are making a sap out of Uncle Sam.

Mr. JOHNS. Mr. Chairman, will the gentleman yield?

Mr. BRADLEY of Michigan. Yes.

Mr. JOHNS. I am very much interested in that circle the gentleman speaks about, where we tax the people in this country to do certain things round and round.

Mr. BRADLEY of Michigan. I should be very glad to elaborate upon the gentleman's question, which he says I have indicated, to this extent: That the other day I talked to one of our Army pilots stationed at Wright Field, and he told me that the biggest trouble out there in furnishing airplanes under the Lend-Lease Act is that Great Britain insists that the planes we give her, if you please, must be equipped not with American equipment; oh, no, but that every time they get a chance they want to put a patented British article on the plane so that we can pay Great Britain's inventors for their article on planes that we give to Great Britain.

The CHAIRMAN. The time of the gentleman from Michigan has expired.

Mr. TREADWAY. Mr. Chairman, I yield 10 minutes to the gentleman from New York [Mr. WILLIAM T. PHEIFFER].

Mr. WILLIAM T. PHEIFFER. Mr. Chairman, although there are not very many Members of the House present at this late hour, nevertheless I feel that those who are here will be interested in hearing some facts about the actual spending of the taxpayers' money, facts that are shocking and astounding, facts which, had they been brought out at the time the appropriations were made, would certainly have resulted in the defeat of many of the appropriation bills that have been before the House in this session and in former sessions of Congress.

The bringing in of this enormous tax bill is a painful duty, which has been ably and conscientiously discharged by the Ways and Means Committee. It was a gigantic task. Although we may differ with the committee on the justness and practicality of various items of the bill, yet it must be unanimously conceded that the committeemen are entitled to unstinted praise for their sedulous and untiring effort, which is embodied in the 95 pages of this bill. It would be childish to say that we do not need increased tax revenue to bolster the economic structure of our Government against collapse under the heavy burden of the defense program. Likewise, although it is relevant and proper to bring into the light of high noon the facts concerning the lavish spending of the public's money during the past 8 years, which have impaled us on the horns of the present dilemma, that recital can only serve the salutary purpose of calling a halt to governmental extravagance. Every Member of the House can stand at this lectern from now until doomsday and decry the siphoning of billions of dollars from the United States Treasury to finance the follies and foibles which have characterized government under the first and second New Deals, and we could not recover one penny of the sixty-seven and one-half billions of dollars spent with such reckless abandon by the administration during the fiscal years 1933 through 1941.

It is all water over the dam. But we can render a vital service to the American people by posting warning signals against the continuance of the administration's policy of playing high, fast, and loose with the hard-earned money dutifully paid into the coffers of the Government by our taxpayers. We are prone to forget the wise and incontrovertible statement made by the Supreme Court of the United States in a memorable decision rendered many years ago, that the power to tax is the power to destroy. If there was ever a patient who needed to have his ills cured, it is our old friend, John Q. Taxpayer, who, for the past decade, has docilely submitted to a series of emasculating operations by 48 State doctors, as well as by our senior surgeon, Uncle Sam. At the present rate of tax legislation, there will soon be little left of the body on which the surgeons may operate.

In my remarks on the floor of the House on June 10, 1941, I cited specific instances of current extravagance in nondefense expenditures, despite the positive assurance given the country by the President, in his message personally delivered to the Congress on January 6, 1941, that such expenditures would be cut to the limit. I then told the House of a recently approved project for the compiling of certain data pertaining to the censuses of 1880 through 1930, at a cost to the taxpayers of $1,680,321. Also, the project for the salvaging, indexing, and microfilming of the records of discontinued Federal relief programs in New York City at a cost of $700,356. And there were others. Since then several more beauties in this line have come to my attention. What do you think of this one, right hot off the stencilling machine, under date of day before yesterday?

I have here a notification of a project approval issued by the Works Projects Administration, to the tune of $1,903,927, and here is what it is for: That money is to be expended to assist in organizing and operating library services for public libraries and to assist public museums. The work includes creating, restoring, installing, and controlling museum exhibits; extending educational facilities by conducting research work in connection with the preparation of exhibits and dioramas, and assisting in the care and propagation of experimental plants and cultures; preparing bibliographies in connection with museum activities, and so forth.

Here is another one that was approved on June 22, 1941, for the sum of $367,942; to prepare, compute, transcribe, check, and reproduce a series of mathematical tables necessary in various branches of astronomy, mathematics, physics, and engineering. Here is another prize defense contract approved June 13, 1941, which involves the payment by the taxpayers of the sum of $374,999 for which they will be favored with inventories of books, pamphlets, and broadsides printed in the United States and its territorial possessions prior to January 1, 1891, and other indispensable and breath-taking data of a similar stripe. I do not have sufficient time to delineate the several other examples of reckless and absurd nondefense spending I have on hand this afternoon. Suffice it to say that they also involve staggering sums, and they are on a plane with the three projects just delineated.

If any man thinks that the American taxpayers will continue indefinitely to

toil and slave and sacrifice to accumulate money to pay for these superboondoggling projects, particularly at a time when we are in such vital need of guns and armaments, planes and tanks, that man is due to have a rude awakening. One of these fine days the taxpayers are going to rear up on their hind legs and quite convincingly say to the prodigal tycoons of the New Deal: "Lay off, Macduff, or give us value received for our tax money—because dollar bills do not grow on berry bushes."

Mr. HOFFMAN. Mr. Chairman, will the gentleman yield?

Mr. WILLIAM T. PHEIFFER. I yield.

Mr. HOFFMAN. Just how long are we of the minority party going to vote for these appropriation bills calling for three, eight, nine, or whatever billion it may be? That is what I would like to know.

Mr. WILLIAM T. PHEIFFER. I will say to the gentleman from Michigan I believe his voting record is about parallel with my own. I have vigorously fought against these appropriation bills where it was apparent there was water in them for these very purposes. But, as I have said before, our efforts in that respect often remind me of what Matthew Arnold said about the poet Shelley. You will remember that he described Shelley as a beautiful, ineffectual angel beating in the void his luminous wings in vain.

It is all well and good to say that you cannot take a dollar out of the Treasury of the United States until it is appropriated, yet we appropriate these vast sums of money and that is the last we hear of them until we find that a great deal of the money is being used for projects of the nature I have just described.

Mr. HOFFMAN. If the gentleman will pardon me for one more observation, I voted against many of the relief appropriations, but then the defense program came along, and I have voted for every one of them. We all realize that there must be an end to that. We have appropriated today more money than the administration can spend to advantage. How long are we as a Republican organization on this side going to go along? That is the same question I asked the Republicans the other night, if you will recall—how long are we going along and vote for everything the Democrats bring in here? Are we ever going to wake up and oppose some of these appropriations? I would like to know.

Mr. WILLIAM T. PHEIFFER. My answer to the gentleman, of course, cannot in any way be enlightening because I do not know. It would take a much wiser man than myself and 10 Solomons to answer that question.

Mr. HOFFMAN. But what are you and I going to do about it? Are we going to continue to vote for $8,000,000,000, or whatever they ask for on that side, just because they label it "national defense"?

Mr. WILLIAM T. PHEIFFER. I will say to my colleague that the only thing we can do is to keep on pounding away at this thing with the hope that someday our good friends on the Democratic side will see the light and agree with us that there should be no center aisle when it comes to spending the taxpayers' money sparingly and to the best possible advantage.

Mr. DITTER. Mr. Chairman, will the gentleman yield?

Mr. WILLIAM T. PHEIFFER. I yield.

Mr. DITTER. I cannot help but answer my friend from Michigan by reminding him that there are Republican members on the Appropriations Committee, and that a considerable amount of reductions are made by the Republican members on appropriation committees long before the bills come to the floor of the House. So that the Republican Party is not unmindful of the excesses in spending that have been advocated by the administration.

Mr. WILLIAM T. PHEIFFER. I thank the gentleman from Pennsylvania for his valuable contribution.

I am sorry I cannot yield further, because I only have a few minutes remaining, and I have something here that should be pointedly called to the attention of the Congress. It is startling proof of the fact that a great deal of the money which we appropriated for the use of the Office of Emergency Management and the War Department for the building of an unassailable defense for our country is being used to pay for frills and furbelows that have not the slightest relation to national defense.

Here in Washington at the R. K. O. Theater this week there is a magnificent moving picture being run under the title of "Aluminum." According to the caption, that picture was produced by the film unit of the O. E. M. In the name of common sense, what good purpose does the film unit of O. E. M. serve? Does it not induce a disagreeable nostalgia for the fabulous days of the first New Deal, when every socialistic experiment was implemented with a film unit and a troop of cameramen?

[Here the gavel fell.]

Mr. TREADWAY. Mr. Chairman, I yield the gentleman 2 additional minutes.

Mr. WILLIAM T. PHEIFFER. I thank the gentleman from Massachusetts. Last Monday morning I requested the Office of Emergency Management to advise me the cost of the moving picture, Aluminum, and the cost of any other pictures produced or in production by the film unit. I have just this afternoon received a letter from O. E. M. saying that that picture cost the Government of the United States $2,000 and that the film unit of O. E. M. now has in production a short on defense housing and one on aircraft manufacture, each to cost approximately $2,000, and then some shorter pictures at costs from $500 to $1,500. The statement in the letter that "These pictures are paid for out of funds appropriated for this purpose by the Congress" should cause us to weep.

Mr. BRADLEY of Michigan. Mr. Chairman, will the gentleman yield?

Mr. WILLIAM T. PHEIFFER. I yield.

Mr. BRADLEY of Michigan. How long is that motion picture to which the gentleman referred?

Mr. WILLIAM T. PHEIFFER. I dare say it requires about 10 or 12 minutes to show it.

Mr. BRADLEY of Michigan. Then it would be about a 2,000-foot picture, and you cannot produce them for less than $1 a foot. I was in that business myself for 20 years, and I know. I challenge their figure of $2,000.

Mr. WILLIAM T. PHEIFFER. If the gentleman is questioning the figures as given me by the O. E. M.——

Mr. BRADLEY of Michigan. I challenge their figures.

Mr. WILLIAM T. PHEIFFER. I understand the gentleman is challenging their figures, but those are the figures they have given me. I know nothing about the mechanics of the moving-picture industry and I bow to the gentleman's judgment on that matter.

Do you know that the War Department, the entire functions of which should be the training of troops and the mapping of defense strategy, has set up a Speakers Bureau and a Bureau of Public Relations? This morning's Washington Post conveyed the enlightening news that an estimable and accomplished lady from my old home State of Texas has been brought here to serve as women's editor in the Bureau of Public Relations of the War Department. I have no idea of the cost to the taxpayers of these extracurricular activities of the War Department. However, I believe I am on safe ground in saying that the Congress had no intention of appropriating defense funds for such purposes.

Mr. Chairman, I am sure that the attempts apparently being made in some quarters to use the defense program as a vehicle for unsound experiments in the field of government, and the festooning of defense activities with propaganda and ballyhoo, are repugnant to every fair-minded Member of the Congress. Let us keep faith with the taxpayers by insisting that every dollar heretofore, and hereafter, appropriated for the defense of our great Nation be used for that purpose, and for none other.

[Here the gavel fell.]

Mr. TREADWAY. Mr. Speaker, I ask unanimous consent that the gentleman from South Dakota [Mr. CASE] may extend his remarks at this point in the RECORD.

The CHAIRMAN. Without objection it is so ordered.

There was no objection.

Mr. CASE of South Dakota. Mr. Chairman, section 557 of the revenue bill of 1941 imposes an annual special tax on persons engaged in the business of furnishing billboards for purposes of outdoor advertising. The special tax is a flat tax based on the number of billboards maintained during the tax year and the rate varies in accordance with the size of the billboard and the number controlled, but not in accord with the income.

I have received a number of telegrams and letters from outdoor advertising firms in South Dakota protesting against the unfairness of this tax base on the grounds that it is discriminatory and confiscatory. The nature of the discrimination is brought out by these excerpts.

Mr. Herbert Fish of Aberdeen, S. Dak., writes—

That $5 per board per year is just about what I make out of my business to live on. To the outdoor advertising interests in the

east it is chicken feed. I can get only $7.75 per board for advertising out in South Dakota, while the eastern boys get up into the thousands for some of them. Why I have to pay as much tax as they do, and get one-tenth as much revenue is not understandable. If they want to go about it fairly (Lord knows I will pay and pay until it hurts) why not tax all advertising? And why not do it on a net, gross, or any basis for that matter, except such a discriminating basis as $5 a billboard.

Mr. William B. Baker, of Rapid City, S. Dak., points out in a wire that the proposed tax—

would entirely confiscate the profits from my outdoor advertising business on which I depend for a livelihood. The tax appears to be confiscatory and patently discriminatory.

Other letters and telegrams have been received which protest not so much against the tax as against the discriminatory feature of the tax basis. Surely some other basis could be worked out which would not be so discriminatory and confiscatory against the small outdoor advertising firms in the Midwest. The tax paid should bear some relation to the profit or net income involved.

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from Pennsylvania [Mr. DITTER].

Mr. DITTER. Mr. Chairman, I am profoundly impressed and inspired by this splendid audience. What it lacks in quantity it certainly makes up in quality.

Mr. Chairman, startling statements by the President have ceased to be a surprise to the American people. The exceptional can become commonplace if repeated often enough. Someone has said that we can actually become accustomed to hanging.

I confess, however, Mr. Chairman, that an observation made by the President in his Budget message took me completely by surprise. It was a comparison which I must admit I had never expected to have drawn. It was as far-flung as the now famous four freedoms. It embraced everything everywhere. I refer, Mr. Chairman, to the President's statement that "our tax burden is still moderate compared to that of most other countries."

This indeed is a new approach to a sore subject. Apparently our people are to be happy because we have not as yet excelled in tax burdens. The approach is certainly original and unique. But I have serious doubts as to its palliative value. Certainly the idea of moderation is remote when we realize that the revenue measure now before us is the heaviest tax load ever saddled on the shoulders of the American people. To attempt to make attractive the sweat, which the President in 1932 said produced our taxes by comparing our tax burden with the load carried by other countries, will hardly be successful with those who will be required to do the sweating under the terms of this bill.

The comparison impressed me when I first heard it. Since then I have read it and reread it, trying to find some reason or some explanation which would justify a comparison between our tax needs and those of other countries. Of course, I realize that the administration has taken delight in superlatives. The greatest spending program, the largest relief program, the easiest work program have become familiar slogans. Moderation has not been an outstanding characteristic of the words or of the deeds of the administration. Excesses have been the example. Have we reached the point where, as a result of the reckless abandon of the last 8 years, we must contemplate an effort to excel in taxation? I would be loath to entertain such a conclusion.

As distressing, however, as the comparison itself may be, Mr. Chairman, the implication of the word "still" is even more disturbing. That word "still" is forceful. But, unfortunately, it is also foreboding. I am afraid that it augurs ill for the future. I fail to find much hope in it. That the patient is still breathing is a note of despair. With a storm raging, the message that the ship is still afloat will not allay the fear of those who know of the danger. Is the administration fearful that the day of boasted moderation is about to pass and that the time is at hand when we will set the pace in taxation? As I examine the tax bill now before the House, as I contemplate the demands which the administration has indicated it will make in the immediate future, as I recall the experiences of the last 8 years, I must admit, Mr. Chairman, the word "still" is neither comforting nor consoling. It reminds me of the optimism of the fellow who fell out of a twentieth-story window of a skyscraper in New York and who insisted as he passed some spectators at a window on the third floor, "I'm still all right."

I find it difficult, Mr. Chairman, to get away from the comparison itself, despite the gloomy prospect implied by the word "still." I am confronted continually by the problem of the need of any comparison. Why should the tax burden placed as a yoke upon other countries be a measuring rod for that which is imposed upon our taxpayers? Is the comparison intended as a justification for these new levies? Or for the former impositions? Or for the fiscal policies of these past years which have brought us to our present sorry plight? Is it an attempted antidote, anesthetic, alleviative, or stimulant? Whatever the purpose of the comparison, one thing is crystal clear—there would have been no need for it had "prudence" rather than "improvidence" been the watchword during the last decade.

At this time an effort is being made by the administration to label the bill before us a defense-tax measure. I am not unmindful of the demands made upon the Government as a result of the expansion of our national defense. Insofar as those needs are honestly, wisely, and competently provided for, I give them absolute support. But the fact of the matter is the expansion program could have been cared for, without resorting at this time to a measure such as this, had the repeated warnings of the past few years been heeded. The administration has thrown care and caution to the winds. Soothsaying and magic have been substituted for common sense in fiscal affairs. Here in the House the majority, despite the warnings and protests of the minority, has approved and supported the measures which have edged us closer and closer to financial disaster. Under the whip of the administration a subservient majority has been the handy tool of a designing band of economic theorists who have cast aside restraints of all kinds in their experimental economics. Make no mistake about it, the pathway of profligacy could not have been pursued had not the majority suggested the original step and had it not urged the successive steps which were taken long before the defense program was inaugurated. Spending ourselves into prosperity was the order of the day in the majority ranks. From all appearances it continues to be the order of the day. That is the tragedy of it. And every taxpayer in the country should know it.

Much has been made of the claim that these enormous expenditures were necessary. I have seen the breast-beating about human needs. I have heard the loud lamentations. I have witnessed the crocodile tears. But, I submit, Mr. Chairman, these human needs could have been cared for completely without resorting to the extravagance and wastefulness which have made the professions of righteousness appear pharisaical when the practices are observed. To a large degree the course which has been followed has not been determined by need so much as it has been decided upon by the adoption of the false philosophy that a prosperous people must be a profligate people. Putting off the pay day does not pay the debt. A government that disregards its own stability can give no real security to any of its people. Security must be more substantial than fulsome phrases.

Despite repeated promises and recurring assurances that economy in government would be practiced, wastefulness and extravagance have continued unabated. I have seen no sign whatever, Mr. Chairman, that spending has been discouraged by the executive branch of the Government. For that matter, I have seen little evidence of it from the majority side here in the House. Excuses have been found for the expansion of activities which have made additional expenditures inevitable. As I see it, Mr. Chairman, until a change is made—a change in fundamental philosophy—there can be no hope of avoiding excessive tax burdens. And so long as the policies which have been adopted by the administration are persisted in, the ominous threat of the word "still" will continue to hang over the heads of the American people.

I do not intend to discuss in detail the many provisions of the bill. One feature, however, a distinct departure from established precedent, and a change which I believe to be a most dangerous one, cannot be ignored. I refer to the compulsory joint-return provision.

In 1934 the Secretary of the Treasury, Mr. Morgenthau, first suggested the possibility of including in the revenue law a provision requiring husbands and wives to file joint income returns. While the

proposal was abandoned at that time, the original sponsorship came from the administration.

We have come to a sorry pass indeed, Mr. Chairman, if a tax on marriage is a necessary part of our revenue program. After all, that is just what this proposal amounts to. This indeed is an indictment of the administration's fiscal policies which will be difficult for the most devoted new dealer to answer. It has been suggested that the proposal will only affect those taxpayers in the upper brackets and that the objection is based solely on the protests of wealthy citizens. No more unsound assertion could be made. It cannot be forgotten that the word "still" is ever before us. Common sense tells us that if the proposal affects the larger taxpayers at this time, in due course it will reach down to the home of the most humble family, to the family where an industrious wife contributes by her toil to the maintenance of the family, and where the joint efforts of husband and wife provide for the children a prospect for the future not otherwise attainable. This proposal is the opening wedge—to compel the payment of a greater tax by husband and wife, irrespective of their station in life or their ability to pay.

This is a direct reversal of our normal and accepted policy toward marriage as exemplified in the income-tax laws for more than 25 years. We have always granted larger personal exemptions to married persons than to single persons. In addition we have always allowed exemptions for children and for dependents, but now these allowances and exemptions will be made meaningless because the added tax burden on a husband and wife in all likelihood will be much greater than the tax savings that would result from the personal income exemptions of married persons and the allowances for dependents. Under the plea of a defense emergency, we are being urged to abandon a long-established principle of our income-tax law without considering the merits upon which that principle has been founded. I personally doubt whether there are any couples that will fail to marry because of the added tax burden that will result if this provision of this bill should be enacted. But it certainly does seem illogical to place upon such couples an added burden because they did marry.

I am opposed to this provision of the tax bill because it tends essentially to destroy the equality between men and women and the independence of married women from the domination of their husbands. Such equality and independence has been won only as a consequence of a long struggle. We all know that under the common law a wife had no effective property rights apart from her husband. She was thus brought into a state of subjugation—under the domination and control of her husband.

For more than a century in this country women have been struggling to secure equality of treatment so far as their property rights go. Mississippi in 1839 was the first State of the Union to free women from the tutelage and control of their husbands relative to the control of their property. New York, Indiana, and Pennsylvania followed that fine example in 1848, and California and Wisconsin did likewise 2 years later. By the end of the nineteenth century in at least three-fourths of the States the wife could own and control her own property apart from her husband; and in at least two-thirds of the States she could possess at least her own earnings. Of course, during the past 40 years much additional legislation removing discriminations has been passed. One of the main reasons why women were so insistent on their right to the franchise was to terminate this discrimination against women that existed in the law, and after the adoption of the nineteenth amendment by the United States, women's organizations have been devoting their energies through the newly won franchise to removing the other continuing inequalities that exist against women. Thus from 1920 to 1940, there were at least 159 State legislative enactments removing legal discriminations against women in 46 States, the District of Columbia, and Hawaii. Twenty-seven of these amendments passed in 14 States dealt with property rights.

It seems obvious that if a joint return is required of a husband and of a wife upon which the tax of the husband and the wife are assessed on the basis of their income, then thereby the equality and independence of women are decreased; because there is being imposed upon the property of the wife a tax that is not solely based upon her property or income but upon the property or income of husband and wife considered together.

The effect of such a provision is to endanger the position and rights that married women have achieved after a long struggle. A woman, because she was married, would have to pay a higher income tax, as would her husband also. Compulsory joint returns is a backward move toward the old view of women as chattels. Slowly women have gained certain rights, including the right to earn a living, to dispose of their own income, and the right to pay their own taxes. This provision of the bill would deprive married women of the right to pay their own taxes. This, then, is a step toward subjugation and away from equality.

Most of the States that have granted equality to women relative to property have done so through granting them the full and unlimited right to hold and control their private property and to maintain title to their own earnings and income. But some eight or nine States in the South and West that have civil-law antecedents utilize the institution of community property. The property and earnings of husband and wife are considered as the community property of the two and are apparently divided equally between them; each is subject to individual taxation on his or her part. A number of persons supporting joint returns for husband and wife are very anxious to attack the institution of community property because it has resulted in the minimizing of taxes for married couples in such States, and such minimizing of taxes did not exist in States that did not have community-property laws. But the greater part of the increased taxes that will result from joint returns will not come from the eight or nine community-property States, but it will come from States that do not have such laws—New York, Massachusetts, Illinois, and a few others. Thus these people who are interested in attacking the community-property States will be placing a greater burden upon those States that do not have such laws than upon the States that do have community-property laws.

The compulsory joint income-tax return of husband and wife is unconstitutional. In 1931, in the case of *Hoeper* v. *Tax Commission of Wisconsin* (284 U. S. 206), the United States Supreme Court held unconstitutional a Wisconsin statute that required the income of husband and wife be added together and taxed accordingly as a unit. Although, under the Wisconsin law a man and wife living together could file joint returns or individual returns, the statute provided that "in either case the tax shall be computed on the combined average taxable income." The Supreme Court of Wisconsin held the act to be constitutional, but an appeal brought by Hoeper in the United States Supreme Court reversed the decision. According to the United States Supreme Court, the real question in this case was—

> Since then, in law and in fact, the wife's income is in the fullest degree her separate property and in no sense that of her husband, the question presented is whether the State has power by an income-tax law to measure his tax, not by his own income but, in part, by that of another.

The Supreme Court then went on to say—

> The appellant says that what the State has done is to assess and collect from him a tax based in part upon the income received by his wife and that such action is arbitrary and discriminatory and consequently violative of the constitutional guaranties.

The Supreme Court supported this contention, saying—

> That which is not in fact the taxpayer's income cannot be made such by calling it income.

The claim was advanced by the State of Wisconsin that the law was actually "a regulation of marriage" to which the Supreme Court replied:

> It can hardly be claimed that a mere difference in social relations so alters the taxable status of one receiving income as to justify a different measure for the tax. * * * Arbitrary and discriminatory provisions contained in it cannot be justified by calling them special regulations of the persons or relationships which are the object of the discrimination. * * * The exaction is arbitrary and is a denial of due process.

The Supreme Court held this tax on one person's income as measured in part by the income of another person was a denial of property without due process of law under the fourteenth amendment. Now the Supreme Court held in *Heiner* v. *Donnan* (285 U. S. 312):

> Nor is it material that the fourteenth amendment was involved in the Heiner case instead of the fifth amendment as here.

The restraint imposed upon legislation by the due process clauses of the two amendments is the same.

Therefore it would appear that the decision in the Hoeper case would be governing relative to this provision of the present tax bill, and that this statute would be unconstitutional.

Mr. Chairman, try as I will, I cannot dismiss the President's palliative, "our tax burden is still moderate compared to that of most other countries."

As a frugal and industrious people adjust themselves to the serious task of making themselves secure in a world of conflict and disorder, something more assuring and more satisfying will be necessary than an odious comparison to spur them on to toil and sacrifice for the general welfare.

Mr. DOUGHTON. Mr. Chairman, I move that the Committee do now rise.

The motion was agreed to.

Accordingly, the Committee rose; and, the Speaker having resumed the chair, Mr. WILLIAMS, Chairman of the Committee of the Whole House on the state of the Union, reported that that Committee having had under consideration the bill (H. R. 5417) had come to no resolution thereon.

EXTENSION OF REMARKS

Mr. DINGELL. Mr. Speaker, on behalf of the gentleman from West Virginia [Mr. RANDOLPH] I ask unanimous consent that he may extend his own remarks in the RECORD.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

(Mr. DITTER asked and was given permission to extend his own remarks in the RECORD.)

Mr. CRAWFORD. Mr. Speaker, I ask unanimous consent that the gentleman from Michigan [Mr. BRADLEY] may revise and extend his remarks in the RECORD.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

Mr. PATRICK. Mr. Speaker, I ask unanimous consent that the gentleman from Alabama [Mr. BOYKIN] may extend his own remarks in the RECORD.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

Mr. PATRICK. Mr. Speaker, I ask unanimous consent that I may extend my own remarks in the RECORD.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

Mr. BRADLEY of Michigan. Mr. Speaker, supplementing the request submitted on my behalf by my colleague the gentleman from Michigan [Mr. CRAWFORD] I ask unanimous consent that I may include in those remarks a letter written by John B. Trevor to the board of directors of the American Coalition.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

The SPEAKER. Under the previous order of the House the gentleman from Michigan [Mr. HOFFMAN] is recognized for 10 minutes.

WHO BETRAYS THE NATION: LINDBERGH, A DISTINGUISHED STATESMAN, THE INTERVENTIONISTS, OR THE PRESIDENT AND THOSE WHO WOULD LEAD US INTO WAR?

Mr. HOFFMAN. Mr. Speaker, who deceives the people? Who betrays the Nation? Those who abide by the promises which were so solemnly made and who would continue at peace, prepare by the exertion of every possible force for an adequate national defense, or those who would lead us into a war for which all will admit we are unprepared? If names are to be called, let those names be called in public and let the facts be narrated which show the truthfulness or the untruthfulness of the appellation.

We need no proof to substantiate the statement that we are not prepared to send another A. E. F. to Europe. Time and again figures have been given showing the hopelessness of the landing and the maintenance of an American army in Europe, in Africa, or in China.

Nor can it be denied that it is the purpose of some in these United States to send such a force to Europe, where it will undoubtedly meet disaster.

On July 4, last, the United Press contained this statement:

> Gen. Sir Archibald P. Wavell, British commander in chief in the Middle East, was quoted as follows in an interview at Cairo with Harold Denny, of the New York Times: "Can you win the war without America's full-scale participation?" General Wavell answered with a slow shake of his head, then he said, "We shall have to have airplanes, tanks, munitions, transport, and finally men."
>
> "When?
>
> "The sooner the better," was the reply, "but that depends on when you are ready, doesn't it? I suppose when you get into all-out production you will be able to equip any number of men for anywhere in the world."

On July 7 the United Press contained the following statement:

> Lt. Gen. Sir Claude Auchinleck, new British Middle East commander, said today that American manpower eventually would be just as necessary "to win the war properly" as it was in the World War.

We have been told by General Marshall that an American force of 1,700,000 men was adequate to defend this Nation. We now have in service 1,400,000 men, and subject to call something like 900,000 more. If all the men who entered service were discharged at the end of the year's service, which it was said would be the extent of time they would be required to give, and the new men taken in, we would still have more men in the armed forces of the United States than General Marshall said were necessary for national defense.

The truth of the matter is that the President of the United States violated his solemn promise. In utter disregard of his oath of office, he is now, and for some time past has been, making war without a declaration of war, which only the Congress has the right to make.

The President is the man who has violated his promises. The President is the man who has violated his oath of office in that he exceeds his constitutional power. The President is the man who is usurping the powers of Congress. The President is the man who is betraying the American people by creating a situation and then asking and obtaining from Congress authority to extricate himself from the dilemma in which he has involved himself.

The President is the man who is willing to gamble with the lives of a million or more young men.

Some day this war will be ended. It will be ended by the making of a proposal of one country, their acceptance by another, or by a compromise, or, if you please, a negotiated peace. There is no reason why, if American soldiers and sailors are to be sent to fight by the side of British and Russian soldiers and sailors, the American people should not know, and know now on what terms the fight may end.

There is no reason why the German people, and it is my understanding that Hess has already made the statement of terms of the German people, should not propose the terms on which they will end the war.

There is no reason why Churchill should not tell us when he and England will be willing to end the war. If the answer of Churchill be that the war will end only when Hitler is destroyed, will he tell us whether he means that Hitler must abdicate or that he must be executed, and if he does, then what form of government he proposes to impose upon the German people, and will he tell us, if after Hitler and the military leadership of Germany are destroyed, how Germany is to be governed, and by whom, and what the cost of such a government will be, and how much of that cost is to be borne by the American people?

Will he tell us how much in dollars and cents America is to contribute to the success of his plan and how many American lives are to be sacrificed in the exercising of that plan?

In short, if we are to fight, let us know the objective of that fight so that when they have attained it, we may know that the war should be over.

If, on the other hand, we are to fight merely for the sake of fighting, so that munition makers and shipbuilders and international bankers may become wealthy, may enrich themselves, then let us know that.

No; those who advocate remaining at peace, those who speak for national defense, those who believe in preparedness rather than in a war of aggression are not the betrayers of our people or Nation. Those who would lead us into a war for which we are not prepared are the ones who would destroy the people's government, your government and mine.

Mr. Speaker, I ask unanimous consent to revise and extend my remarks.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

Mr. HOFFMAN. Mr. Speaker, I ask unanimous consent to extend my remarks in the RECORD and include therein a newspaper article.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

PERMISSION TO ADDRESS THE HOUSE

Mr. HOFFMAN. Mr. Speaker, I ask unanimous consent that on tomorrow, after the conclusion of the legislative program for the day and any other special orders that may have been entered, I may be permitted to address the House for 10 minutes.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

ADJOURNMENT

Mr. DOUGHTON. Mr. Speaker, I move that the House do now adjourn.

The motion was agreed to; accordingly (at 5 o'clock and 7 minutes p. m.) the House adjourned until tomorrow, Friday, August 1, 1941, at 12 o'clock noon.

COMMITTEE HEARINGS

COMMITTEE ON PUBLIC BUILDINGS AND GROUNDS

There will be a meeting of the Committee on Public Buildings and Grounds at 10 a. m. on Friday, August 1, 1941, in the caucus room for consideration of House Resolution 209.

COMMITTEE ON THE JUDICIARY

Subcommittee No. 1 of the Committee on the Judiciary will start hearings in room 346, old House Office Building, on Wednesday, August 6, 1941, at 10:30 a. m., on H. R. 5234, to amend the Judicial Code in respect to the jurisdiction of the Court of Claims in certain cases. (Mr. SUMNERS of Texas.)

EXECUTIVE COMMUNICATIONS, ETC.

Under clause 2 of rule XXIV, executive communications were taken from the Speaker's table and referred as follows:

803. A letter from the Under Secretary of Agriculture, transmitting a draft of a proposed bill for the relief of Miss Nell Mahoney, junior clerk-typist, Farm Security Administration, Crockett, Tex.; to the Committee on Claims.

804. A letter from the Under Secretary of Agriculture, transmitting a draft of a proposed bill to enable the Secretary of Agriculture to obtain and administer patents for the best interest of the public, and for other purposes; to the Committee on Patents.

805. A letter from the Secretary of War and the Secretary of the Navy, transmitting a draft of a proposed joint resolution to amend section 124 of the Internal Revenue Code by extending the time for applications, and changing the procedure, for certification of national-defense facilities and contracts for amortization purposes; to the Committee on Ways and Means.

806. A letter from the Secretary of War, transmitting a letter from the Chief of Engineers, United States Army, dated May 29, 1941, submitting a report, together with accompanying papers and an illustration, on a preliminary examination and survey of Galena River (Fever River), Ill. and Wis., authorized by the Flood Control Act approved August 28, 1937 (H. Doc. No. 336); to the Committee on Flood Control and ordered to be printed, with an illustration.

807. A letter from the Secretary of War, transmitting a letter from the Chief of Engineers, United States Army, dated June 2, 1941, submitting a report, together with accompanying papers and an illustration on reexamination of Ashland Harbor, Wis., requested by resolution of the Committee on Rivers and Harbors, House of Representatives, adopted January 19, 1940 (H. Doc. No. 337); to the Committee on Rivers and Harbors and ordered to be printed, with an illustration.

808. A letter from the Secretary of War, transmitting a letter from the Chief of Engineers, United States Army, dated May 29, 1941, submitting a report, together with accompanying papers and illustrations, on reexamination of Housatonic River, Conn., Mass., and N. Y., requested by resolution of the Committee on Flood Control, House of Representatives, adopted April 2, 1936 (H. Doc. No. 338); to the Committee on Flood Control and ordered to be printed, with two illustrations.

REPORTS OF COMMITTEES ON PUBLIC BILLS AND RESOLUTIONS

Under clause 2 of rule XIII, reports of committees were delivered to the Clerk for printing and reference to the proper calendar, as follows:

Mr. VINSON of Georgia: Committee on Naval Affairs. S. 353. An act to provide for the extension of enlistments in the Navy; with amendment (Rept. No. 1082). Referred to the Committee of the Whole House on the state of the Union.

Mr. JARMAN: Committee on Printing. House Joint Resolution 196. Joint resolution authorizing the printing, with illustrations, of the proceedings of the national encampments of various veterans' organizations in the United States as separate House documents; without amendment (Rept. No. 1083). Referred to the House Calendar.

REPORTS OF COMMITTEES ON PRIVATE BILLS AND RESOLUTIONS

Under clause 2 of rule XIII, reports of committees were delivered to the Clerk for printing and reference to the proper calendar, as follows:

Mr. FOGARTY: Committee on Claims. H. R. 1371. A bill for the relief of Burl Treadgill and Helen Treadgill; with amendment (Rept. No. 1084). Referred to the Committee of the Whole House.

Mr. FENTON: Committee on Claims. H. R. 2379. A bill for the relief of Mary, Ethel, and Richard Farrell; with amendment (Rept. No. 1085). Referred to the Committee of the Whole House.

Mr. PITTENGER: Committee on Claims. H. R. 2780. A bill for the relief of O. C. Ousley; without amendment (Rept. No. 1086). Referred to the Committee of the Whole House.

Mr. WICKERSHAM: Committee on Claims. H. R. 2864. A bill for the compensation of Edwin Fairfax Naulty and Leslie Fairfax Naulty; with amendment (Rept. No. 1087). Referred to the Committee of the Whole House.

Mr. HARRIS of Arkansas: Committee on Claims. H. R. 4010. A bill for the relief of Thelma Carringer; with amendment (Rept. No. 1088). Referred to the Committee of the Whole House.

Mr. DIMOND: Committee on Claims. H. R. 4062. A bill for the relief of Alta Ledgerwood; without amendment (Rept. No. 1089). Referred to the Committee of the Whole House.

Mr. WICKERSHAM: Committee on Claims. H. R. 4415. A bill for the relief of the Macon County Art Co.; with amendment (Rept. No. 1090). Referred to the Committee of the Whole House.

Mr. FOGARTY: Committee on Claims. H. R. 4503. A bill for the relief of Hattie Dillion; with amendment (Rept. No. 1091). Referred to the Committee of the Whole House.

Mr. CHENOWETH: Committee on Claims. H. R. 4514. A bill for the relief of Samuel J. D. Marshall; with amendment (Rept. No. 1092). Referred to the Committee of the Whole House.

Mr. COFFEE of Washington: Committee on Claims. H. R. 4879. A bill conferring jurisdiction upon the United States District Court for the Western District of Washington to hear, determine, and render judgment upon the claims of J. A. Sandell and Frances Sandell, his wife; with amendment (Rept. No. 1093). Referred to the Committee of the Whole House.

Mr. FENTON: Committee on Claims. H. R. 5021. A bill for the relief of Capt. Alex Papana; without amendment (Rept. No. 1094). Referred to the Committee of the Whole House.

Mr. FENTON: Committee on Claims. H. R. 5038. A bill for the relief of Victor M. Lenzer, former special disbursing agent, Department of Labor; without amendment (Rept. No. 1095). Referred to the Committee of the Whole House.

Mr. FOGARTY: Committee on Claims. H. R. 5104. A bill to authorize the Secretary of the Interior to pay certain claims of employees of the Bureau of Reclamation arising out of loss of tools deposited in a warehouse and shop building maintained by the Bureau of Reclamation at Parker Dam, Ariz., destroyed by fire; without amendment (Rept. No. 1096). Referred to the Committee of the Whole House.

Mr. WICKERSHAM: Committee on Claims. H. R. 5223. A bill for the relief of Reginald H. Carter, Jr.; with amendment (Rept. No. 1097). Referred to the Committee of the Whole House.

Mr. FOGARTY: Committee on Claims. H. R. 5225. A bill for the relief of Susannah Sanchez; with amendment (Rept. No. 1098). Referred to the Committee of the Whole House.

Mr. FOGARTY: Committee on Claims. H. R. 5280. A bill for the relief of G. F. Allen, chief disbursing officer, Treasury Department, and for other purposes; without amendment (Rept. No. 1099). Referred to the Committee of the Whole House.

Mr. McGEHEE: Committee on Claims. H. R. 5291. A bill for the relief of Helen Rauch and Max Rauch; without amendment (Rept. No. 1100). Referred to the Committee of the Whole House.

Mr. McGEHEE: Committee on Claims. S. 1228. An act for the relief of Mrs. A. B. Tanner; without amendment (Rept. No. 1101). Referred to the Committee of the Whole House.

Mr. WICKERSHAM: Committee on Claims. S. 1426. An act for the relief of Otis Thompson; with amendment (Rept. No. 1102). Referred to the Committee of the Whole House.

Mr. MASON: Committee on Immigration and Naturalization. H. R. 1944. A bill for the relief of certain Basque aliens; without amendment (Rept. No. 1103). Referred to the Committee of the Whole House.

PUBLIC BILLS AND RESOLUTIONS

Under clause 3 of rule XXII, public bills and resolutions were introduced and severally referred, as follows:

By Mr. BLAND:

H. R. 5456. A bill to provide for a preliminary examination and survey of Bonum Creek, Westmoreland County, Va., and the channel connecting with the Potomac River; to the Committee on Rivers and Harbors.

By Mr. D'ALESANDRO:

H. R. 5457. A bill to amend the act of March 16, 1926, providing for a Board of Public Welfare in the District of Columbia, and for other purposes; to the Committee on the District of Columbia.

By Mr. GREEN:

H. R. 5458. A bill to amend the Organic Act of Alaska; to the Committee on the Territories.

By Mr. LANHAM:

H. R. 5459. A bill to permit seeing-eye dogs to enter Government buildings when accom-

hears none, and appoints the following conferees: Messrs. SUMNERS of Texas, WALTER, and GWYNNE.

FLOOD CONTROL

Mr. WHITTINGTON submitted a conference report and statement on the bill (H. R. 4911) authorizing the construction of certain public works on rivers and harbors for flood control, and for other purposes.

EXTENSION OF REMARKS

Mr. PIERCE. Mr. Speaker, I ask unanimous consent to extend my own remarks in the RECORD and include therein an article from the Timberman on the St. Lawrence seaway.

The SPEAKER. Is there objection to the request of the gentleman from Oregon?

There was no objection.

PROFITEERING IN STRATEGIC AND CRITICAL MATERIALS

Mr. BRADLEY of Michigan. Mr. Speaker, I ask unanimous consent to address the House for 1 minute and to revise and extend my remarks.

The SPEAKER. Is there objection to the request of the gentleman from Michigan?

There was no objection.

Mr. BRADLEY of Michigan. Mr. Speaker, in 1936, when Mr. Roosevelt was a candidate for a second term, he was advocating the passage of a Neutrality Act which would be designed to keep us out of somebody else's war forever. At that time he said that if we ever did become involved in another war it would be because there would be many in the land who would be seeking blood profits and fool's gold.

Today we are dangerously close to war, and we are being pushed further along the road to war by one particular small minority group that we can compare only to a certain black-and-white-striped "wood pussy" in our country. They are men who deal nefariously in strategic and critical materials in order to reap blood profits. It is about time we clamped down on those fellows. Today I am introducing a bill calling upon the President to clamp down on them and fine them $10,000 and give them 10 years in prison whenever they are convicted of selling strategic or critical war materials on which a priority rating has been established.

I have consistently opposed granting additional powers to the President, especially powers which rightfully belong to the Congress, but this is one power the President should have and should use, and use now.

[Here the gavel fell.]

FARM REGIMENTATION

Mr. RICH. Mr. Speaker, I ask unanimous consent to address the House for 1 minute.

The SPEAKER. Is there objection to the request of the gentleman from Pennsylvania?

There was no objection.

Mr. RICH. Mr. Speaker, I have opposed regimentation of the farmer, the businessman, and the laborer. I have received the following letter:

JERSEY SHORE, PA.,
July 30, 1941.

Hon. ROBERT RICH,
Woolrich, Pa.

DEAR SIR: Am writing you concerning this wheat question. When a farmer asks no aid from the Government of any kind, buys his own lime and seed and fertilizer, pays for it out of the money he earns on his farm, pays his local taxes and all the other alphabetical unknown taxes, and doesn't join this Soil Conservation Act, and then out of a clear sky, when his wheat is almost ready to cut, comes a pimp of some kind who doesn't know how to work, is too lazy to work if did know how, and tells you your wheat must be plowed under or be fined 49 cents per bushel, that makes a self-respecting farmer boil clear down to his toes and makes him think of that old Winchester standing behind the door.

Twenty-eight farmers in ——— Township, out of a possible 100, had a right to vote against it. If that is all the farmers, you have to show me.

I do not believe in Government soil conservation. I was practicing it before the Government thought of it.

I really think it is time for the farmers to get together and clean house of such Representatives as that.

We do not, as you know, make any money growing wheat at $1 per bushel.

I feel that under the Constitution I have a perfect right to grow what I please on my farm. I don't borrow money from land banks, and most of them that do never expect to pay it back. These are some of the things I think. Hoping I haven't bored you with this letter, I am

Yours respectfully,

———.

EXTENSION OF REMARKS

Mr. MICHENER. Mr. Speaker, I ask unanimous consent to extend my remarks in the RECORD and to include therein an address made by the gentleman from Massachusetts [Mr. MARTIN] before the Republican convention in Wisconsin.

The SPEAKER. Is there objection to the request of the gentleman from Michigan?

There was no objection.

PERMISSION TO ADDRESS THE HOUSE

Mr. CRAWFORD. Mr. Speaker, I ask unanimous consent that I may proceed under a special order for 10 minutes following the gentleman from Michigan [Mr. HOFFMAN] at the close of business today.

The SPEAKER. Is there objection to the request of the gentleman from Michigan?

There was no objection.

EXTENSION OF REMARKS

Mr. GORE. Mr. Speaker, I ask unanimous consent to extend my remarks in the RECORD by including a resolution endorsing my friend Joe Carr, of Tennessee, for national president of the Young Democrats.

The SPEAKER. Is there objection to the request of the gentleman from Tennessee?

There was no objection.

Mr. ELLIS. Mr. Speaker, I ask unanimous consent to extend my own remarks in the RECORD and to include therein an editorial from the Tulsa Tribune, endorsing public power development.

The SPEAKER. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

JOINT INCOME-TAX RETURNS

Mrs. ROGERS of Massachusetts. Mr. Speaker, I ask unanimous consent to proceed for 1 minute, and to extend my remarks and to include therein a letter from the Women Investors in America and also a statement from them.

The SPEAKER. Is there objection to the request of the gentlewoman from Massachusetts?

There was no objection.

[Mrs. ROGERS of Massachusetts addressed the House. Her remarks appear in the Appendix of the RECORD.]

EXTENSION OF REMARKS

Mr. FELLOWS. Mr. Speaker, I ask unanimous consent to extend my remarks in the RECORD and to include therein a brief newspaper editorial.

The SPEAKER. Is there objection to the request of the gentleman from Maine?

There was no objection.

Mr. VREELAND. Mr. Speaker, I ask unanimous consent to extend my own remarks in the RECORD and to include therein a radio address by Mr. George Stringfellow, of East Orange, N. J.

The SPEAKER. Is there objection to the request of the gentleman from New Jersey?

There was no objection.

Mr. JOHNS. Mr. Speaker, I have two unanimous-consent requests to submit. I first ask unanimous consent to extend my remarks in the RECORD and to include an address delivered by myself over the Columbia Broadcasting System on Wednesday night and, secondly, to extend my remarks in the RECORD to include a letter from a constituent of mine on the subject of the W. P. A.

The SPEAKER. Is there objection to the request of the gentleman from Wisconsin?

There was no objection.

(Mr. LAMBERTSON asked and was given permission to revise and extend his own remarks in the RECORD.)

HARRY HOPKINS AND JOSEF STALIN

Mr. HOFFMAN. Mr. Speaker, I ask unanimous consent to proceed for 1 minute and to revise and extend my remarks in the RECORD.

The SPEAKER. Is there objection to the request of the gentleman from Michigan?

There was no objection.

Mr. HOFFMAN. Mr. Speaker, while Harry Hopkins is over in Moscow asking Joe Stalin what he would accept of American taxpayers in the way of money and property, out in Los Angeles, the city of my friend the gentleman from California [Mr. LELAND M. FORD], the Communists are holding up production for national defense. Harry ought to get together with those Communists, because unless the Communists in this country permit production, we cannot give their "red" brethren what is not produced today—what is not produced, cannot be sent to Russia—and Harry ought to know it.

Mr. RUSSELL. Mr. Speaker, will the gentleman yield? How did you vote on Tuesday?

Mr. HOFFMAN. I voted right. How did you vote?

EXTENSION OF REMARKS

Mr. KEFAUVER. Mr. Speaker, I ask unanimous consent to extend my remarks in the RECORD.

The SPEAKER. Is there objection?

There was no objection.

Mr. COSTELLO. Mr. Speaker, I ask unanimous consent to extend my remarks and include a statement in opposition to the joint tax return.

The SPEAKER. Is there objection?

There was no objection.

Mr. COX. Mr. Speaker, I ask unanimous consent to extend my remarks by inserting some excerpts from a recent broadcast by Fulton Lewis in which he discusses the racket set up in New York which capitalizes on the privation and suffering in England.

The SPEAKER. Is there objection?

There was no objection.

PRICE FIXING

Mr. RANKIN of Mississippi. Mr. Speaker, I ask unanimous consent to address the House for 1 minute and extend my remarks, and that those remarks be put into the Appendix of the RECORD.

The SPEAKER. Is there objection?

There was no objection.

[Mr. RANKIN of Mississippi addressed the House. His remarks appear in the Appendix of the RECORD.]

EXTENSION OF REMARKS

Mr. RANDOLPH. Mr. Speaker, I ask unanimous consent to extend my remarks and include certain editorial comments in support of a separate air force.

The SPEAKER. Is there objection?

There was no objection.

[Mr. CANNON of Missouri addressed the House. His remarks appear in the Appendix of the RECORD.]

PRICE FIXING

Mr. MURRAY. Mr. Speaker, I ask unanimous consent to proceed for 1 minute and revise and extend my remarks.

The SPEAKER. Is there objection?

There was no objection.

Mr. MURRAY. Mr. Speaker, price fixing is a very appropriate subject to discuss this morning. This price fixing of farm products, with all due respect to my colleagues, is nothing new to the New Dealers. I do not see why we are getting so excited about this bill, because the present administration is manipulating and controlling certain farm prices at the present time. This man Henderson seems to want to get a little more power to do a little bigger job. Milo Perkins has been manipulating farmers' prices for several years. This man Perkins has cost the farmers of this country millions upon millions of dollars. At the present time, with the $500,000,000 out of the $7,000,000,000 lease-lend bill and the $235,000,000 from the domestic funds provided by Congress, he or anybody else can control every market in this country. That is, as long as the $735,000,000 lasts. The Agriculture Department has or tries to have direct control of every major farm commodity. Prices have been advanced on some agricultural products by borrowing the money, fixing a price of the product, and then by giving the product away, thus keeping the product off the regular market. It is high time that the producer, distributor, and consumer obtain consideration that is fair to each group.

REFERENDUM ON WAR

Mr. SAUTHOFF. Mr. Speaker, I ask unanimous consent to proceed for 1 minute.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

Mr. SAUTHOFF. Mr. Speaker, I want to announce the result of the poll that is being conducted in my district on the war question.

As of August 1, 1941, I have received 62,158 ballots. Of that number, 58,557 are against our entrance in the present war and 3,601 are for entrance into the war.

[Here the gavel fell.]

EXTENSION OF REMARKS

Mr. EATON. Mr. Speaker, I ask unanimous consent to extend my remarks in the Appendix by inserting a brief article on small factories in connection with the O. P. M. work.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

THE REVENUE BILL—1941

Mr. DOUGHTON. Mr. Speaker, I move that the House resolve itself into the Committee of the Whole House on the state of the Union for the further consideration of the bill H. R. 5417, to provide revenue, and for other purposes.

The motion was agreed to.

Accordingly the House resolved itself into the Committee of the Whole House on the state of the Union for the further consideration of the bill H. R. 5417, with Mr. COLE of Maryland in the chair.

The Clerk read the title of the bill.

Mr. DOUGHTON. Mr. Chairman, I yield such time as he may desire to the gentleman from Utah [Mr. ROBINSON].

Mr. ROBINSON of Utah. Mr. Chairman, I am much concerned over the provisions of this bill because of their effect upon the mining industry, which is one of the most important businesses in my State. I realize the necessity of increased revenue, and I am committed to the principle that we should endeavor to raise out of current income as much revenue as is possible to meet current expenditures.

At the same time, I am faced with the fact that this constitutes the highest tax bill in history and that it is still true that "the power to tax is the power to destroy." The most carefully prepared bill carrying the rates provided in this measure must of necessity have a very heavy impact upon the industries of the Nation, because this provides for an additional tax to be superimposed upon the tax already provided in existing tax laws.

We must have in mind, that after all, the additional revenue under an income-tax law depends upon the income of the taxpayer, and I realize that there are several ways in which the income of the taxpayer will be affected by a tax bill such as this. Here are some of them:

First. The rates may be so high as to discourage the development and expansion of business enterprises, particularly mining enterprises.

Second. The application of a general law such as this and of the regulations for which it provides may inequitably affect many of the mining enterprises of my State.

Third. The application of a general law or regulation may affect adversely one mining enterprise in competition with another so as to seriously curtail its income and its consequent ability to pay taxes.

It seems to me that a bill such as this, at a time such as this, should be framed so as:

First. Not to affect adversely, industries whose continuous production is essential to national defense. Mining is such an industry.

Second. To encourage the expansion of such essential industries. By this I particularly mean, the discovery and development of new ore bodies which are absolutely essential in our national-defense program.

I do not need to tell the Congress that the mining industry is essential, both to national defense and to the fulfillment of the aims and purposes of the lease-lend program. America cannot continue as the "arsenal of the democracies" if its basic supplies are curtailed or if its increased production is hampered or restrained. Let me call your attention to these facts:

First. A steady production of the base metals depends upon exploration and development of additional ore bodies. This requires an unremitting program entailing the expenditure of large sums of money which may never be returned, and also an unceasing expense in search for metallurgical processes which would make low-grade ore deposits commercially available.

Second. Mining is a wasting industry. It is constantly using up its capital in the form of units of the metals produced, and this capital can never be replaced.

For these reasons, I believe that mining and, in fact, all extractive industries should have special consideration in a bill involving as heavy a drain upon its income as does this tax measure. I do not mean that they should be specially favored, but I do mean that the nature of their business, the peculiar character of their operations and the fact that their assets are constantly being used up in the creation of what is called income, should have very special attention. I know it is not the desire of the Congress to seriously injure or retard the development of an industry essential alike to good living and preparation for defense.

Now, I am going to suggest two respects in which I believe mining and relative industries should have treatment in an excess-profits tax bill different from that accorded to those industries or businesses which do not consume their assets in their operation. I am not objecting to the normal tax rates provided in this bill, because I realize the necessity of an increased revenue, but when it comes to determining excess profits, then I wish to call attention to the necessity, both in fairness and in furtherance, of the development and maintenance of a permanent industry which is so essential, of weighing most carefully the effect of the provisions of this bill. Accordingly, I urge:

First. That a formula be written into this bill providing for the determination

of excess profits in the mining industry upon the basis of units mined and sold, rather than upon the general basis of income from the entire operation.

Second. That special provision be made for relief in cases where the application of the general provisions of the law would work an injustice to the individual business.

As to the first proposal, may I call your attention to the fact that the price of metals, per unit, has been stabilized. The industry in my State is cooperating patriotically in the policy of the Government to maintain a ceiling on metal prices. Accordingly, the price per unit is not at the present time substantially in excess of the average price over a period of 40 years.

At the same time, however, the Government urges, and our operators have been cooperating, that the mines increase the number of units produced. If the mining company follows the program of maintaining the present ceiling on prices per unit, and at the same time, in response to the Government's needs, increases the number of units produced, it will have materially decreased the units remaining in the ground, which would be available for production under more propitious circumstances. At the same time, because through increased production of units it has added to its taxable income, it will be obliged to pay extremely high taxes under this law, when, as a matter of fact, these are not excess profits at all.

Then, again, there are many mining companies, particularly those having small operations, which have neither the base-period earnings nor a sufficient statutory capitalization to constitute a proper credit for the computation of excess profits. Many of these properties need special consideration because of their peculiar history. These are the operations with which I am most concerned, for they are not within the class of those larger operations which have built up either a sufficient capital structure or a base-period earning to constitute a sufficient credit. These small operators know little about what we are doing here, and they will first learn of the provisions of this excess-profits tax bill when they are called upon to make their contribution to the Government finances next year.

I have in mind many instances of severe hardship which will be brought about by the application of this law. For this reason I had hoped that the rather stringent provisions relating to relief for cases of this character might have been modified and made more workable in behalf of the types of companies to which I have referred. Under the rule adopted here it is perhaps necessary that we pass this bill, but I shall vote for it with a mental reservation that it does not contain the provisions which I would like to see embodied in it—provisions which would assist, and not seriously hamper, the production of metals so essential in our national-defense program.

Mr. DOUGHTON. Mr. Chairman, I yield such time as he may desire to the gentleman from Massachusetts [Mr. ELIOT].

Mr. ELIOT of Massachusetts. Mr. Chairman, I am grateful to be granted this time. I want to use it simply to ask a question of the committee that refers to section 552 A (7) of the bill, excise tax on rubber articles. My question is whether by any chance that tax applies to crude rubber in any of its usual forms?

Mr. COOPER. Mr. Chairman, will the gentleman yield?

Mr. ELIOT of Massachusetts. I yield.

Mr. COOPER. I am glad to state to the gentleman that the proposed tax does not apply to crude rubber. This proposed tax levies a manufacturers' excise tax on rubber products except footwear and surgical instruments.

Mr. ELIOT of Massachusetts. I thank the gentleman, and I yield back the balance of my time.

Mr. DOUGHTON. Mr. Chairman, I yield 5 minutes to the gentleman from Georgia [Mr. VINSON].

Mr. VINSON of Georgia. Mr. Speaker, I respectfully request consideration, particularly by the members of the Ways and Means Committee, of the statement I am going to make. Section 101, subsection (1), of the internal revenue law specifically exempts labor organizations from taxation. The question is, Does the Ways and Means Committee know of 150 large national unions, 34—or 23 percent—have total assets as of April 1, 1941, of $42,371,199.23? That these assets represent an increase of $4,030,684.66 over the assets possessed by these same unions on the 1st of October 1939, when the present emergency began? In other words, an increase in the assets of those nontaxable unions of 11 percent, due entirely to the national emergency.

The Naval Affairs Committee, charged with this investigation, has sent out questionnaires and has received 105 from the American Federation of Labor and 45 from the C. I. O. The total assets on September 1, 1939, of all unions was $38,161,000. Of that, $10,000,000 was American Federation of Labor, $2,538,000 was C. I. O. On March 31, 1941, on account of the national emergency, the total assets had increased to $42,000,000; $11,000,000 of which, or 12 percent, was an increase in A. F. of L. assets, and $4,182,000, or 64 percent, was an increase in the assets of the C. I. O. The country is sorely pressed for new sources of revenue. Why should these organizations be exempt from paying their proportionate part on their assets?

[Here the gavel fell.]

Mr. DISNEY. Mr. Chairman, I yield myself 30 minutes.

I share the view expressed in this debate on the subject of nondefense appropriations. In my opinion, Secretary Morgenthau's advice to cut out a billion dollars on nondefense was sound. If this had been done, many rates could have been made substantially lower and some excise taxes on the people's goods left off. No one in a position of powerful authority made the slightest effort to put the advice of the chief fiscal officer of the Nation into action. I made such a motion in the Ways and Means Committee, but since the Ways and Means Committee has no jurisdiction on such appropriations a point of order was properly sustained. Under the rules of the House, appropriations cannot be offered in this bill in the National Congress, even in the case of an emergency as great as war. The whole Budget is not intelligently considered. The Appropriations Committee spends the money as it pleases without regard to the Ways and Means Committee, which is required to raise it. The two committees are poles apart. As has been said by the press on the subject of a point of order, it appears that "saving is not germane to spending."

Mr. SUMNERS of Texas. Mr. Chairman, will the gentleman yield for an observation?

Mr. DISNEY. I yield.

Mr. SUMNERS of Texas. Mr. Chairman, the gentleman has yielded to me, and I want to direct the attention of the Committee to the fact that the gentleman is speaking of the fact that there is not a proper coordination between the committee that raises the revenue and the committees that have to do with the expenditure of the money. I beg my colleagues to pay attention.

Mr. DISNEY. My other remarks on this subject will be very brief, because I want to go into the subject of mandatory returns of husband and wife.

Congress appears to be the only place on the face of the earth where the spending organization is completely divorced from the tax-raising or income-producing organization. Up to the time of the War between the States the Ways and Means Committee raised the money and spent the money. Since that time we have had the Appropriations Committee on the one hand spending the money, and the Ways and Means Committee on the other hand raising the money, and the composite brain of the Congress has nothing to do with any intelligent coordination between these two committees under the rules of the House and the rules of the Senate. Something ought to be done about it.

Mr. MICHENER. Mr. Chairman, will the gentleman yield there?

Mr. DISNEY. I yield.

Mr. MICHENER. And under the rule by which this bill is being considered, the House cannot have a thing to say about it—it is all left to this Ways and Means Committee.

Mr. DISNEY. Yes; but the gentleman is off the subject. That is not a fair reference to my remark. Under this rule appropriation cuts would not be in order, as the gentleman well knows.

Mr. Chairman, I address myself particularly to the provisions of the bill dealing with the mandatory joint return by husband and wife.

Mr. KEEFE. Mr. Chairman, will the gentleman yield?

Mr. DISNEY. I yield.

Mr. KEEFE. It is a fact, is it not, that repeated efforts were made upon the floor of this House time and time again when appropriation measures were before this House to reduce appropriations for nondefense items; and the majority in this House refused time and again to approve those proposed cuts. Is not that true?

Mr. DISNEY. Does the gentleman mean the Democratic majority? Is that what the gentleman is talking about, or the majority of the membership?

Mr. KEEFE. I assume that if any responsibility lies any place, it lies with the majority that is in control of this Congress. Is not that true?

Mr. DISNEY. That is the first suggestion I ever heard that the minority party had no responsibility in the matter of appropriations.

Mr. KEEFE. I did not say responsibility; I said control.

Mr. DISNEY. I do not yield further. I remember quite well when the distinguished gentleman from New York [Mr. TABER] offered an amendment to cut the W. P. A. appropriation to $500,000,000. Seven men out of 435 in this House stood up to support him on it. Likewise, many other instances we all know about.

Now, coming back to this subject of mandatory joint returns. There has been such a welter of confusion engendered with all the propaganda spread that I feel the proposal should be restated, and if the Members will listen to me, I think I can state it correctly. I hope the Members have read this report. It is enlightening, and it is specifically definite on this subject. I think I can explain it.

Succinctly the issue involved is: Shall 5.77 percent of the people filing tax returns be permitted to file separate returns, thereby defeating surtaxes, and shall the remaining 94.23 percent of the people filing tax returns continue to be required to take up the slack and pay the taxes—along with the other taxpayers—which the 5.77 percent avoid? This is the sole issue in this controversy. The issue is the age-old issue between taxpaying and tax avoidance, between those who pay their taxes and those who legally avoid a portion of the general taxation. To understand this problem clearly you must know the facts. In 8 States—1 of them my own—earned income, such as salaries and wages, may be divided between husband and wife, and surtax thereby avoided. In the remaining 40 States assignments or gifts of salary or wages—even by antenuptial agreement—cannot be legally recognized for the avoidance of the surtax under the Federal statutes. This arises by reason of the community-property laws of 8 States; but in all 48 of the States division of income-producing property, like land, stocks, and bonds and royalties, and so forth, are and must be under the present law accepted by the Federal Treasury, even though the specific purpose of division of the property is for legal tax avoidance. To state it concretely, in community-property States a single individual with a $10,000 salary would pay a tax of $1,166, but in the community-property States the husband may divide this $10,000 salary with his wife, or the wife divide hers with the husband, and they each pay a tax on $5,000, or both pay a total of $880, thus avoiding $286 in taxes, while just across the State line in a non-community-property State a husband and wife similarly situated may not divide the husband's salary and cannot legally avoid paying the $1,186; but in all States income-producing property may be divided and similar tax avoidance be accomplished.

The process of the division of property for the avoidance of surtaxes is simple. Husband or wife gives to the other spouse income-producing property, pays the gift tax, and the income may then be separately reported and high surtaxes avoided. Since 1932 taxable gifts and tax-free gifts have amounted to about $7,000,000,000, and the committee feels that a great portion of this amount involves family transfers.

Who takes up the slack? Who pays the bill? Who pays the taxes thus avoided? Who, if this measure fails, will pay the $323,000,000 involved? Who will pay the taxes avoided by the 5.77 percent of the folks filing tax returns? Reason becomes arithmetic, and we are confronted with the bald injustice that the 94 percent of the taxpayers take up the slack, they pay the taxes for the tax avoiders. They, and the folks who have hidden taxes upon hidden taxes heaped upon them, such folks who do not take advantage of separate returns and the people who do not file returns, the smaller taxpayers who pay the excise taxes, will pay the bill for the 5 percent.

Mr. BUCK. Will the gentleman yield?

Mr. DISNEY. I yield to the gentleman from California.

Mr. BUCK. The gentleman is always fair, and I think accurate, when he is fully informed on any question. He made the statement that in community-property States the husband and wife may divide their income. I just want to correct the record. I think that is what he said.

Mr. DISNEY. That is correct.

Mr. BUCK. I want to simply state that in community-property States the husband and wife must divide the income. It is because of the fact that those who come from the common-law States cannot understand what the civil law provides that this misunderstanding has arisen about community-property income.

Mr. DINGELL. Will the gentleman yield?

Mr. DISNEY. I yield to the gentleman from Michigan.

Mr. DINGELL. Whether they may or must, the fact is that they do in the community-property States and we do not in the common-law States.

Mr. BUCK. But income is income, whatever it is; whether it is the wife's income or not.

Mr. DISNEY. We have a precedent for this proposal, a precedent that is based on our form of civilization, a precedent springing from another Anglo-Saxon nation, a nation of the same language, like customs, a democratic nation, a nation with laws like ours in most respects. England has had this provision since 1914 and has found its practical effect is to prevent legal tax avoidance and to make for tax equality, that it prevents a small number of people from having a tax advantage over the larger portion.

The report of the Royal Commission appointed to investigate this subject in 1920 reads in part as follows:

> The aggregation for income-tax purposes of the income of husband and wife is not dependent upon any medieval conception of the subordination of women, nor is it a question of sex disability, since either partner can claim separate assessment and separate collection. The incomes are aggregated because the law of taxable capacity is the supreme law in matters of taxation, and taxable capacity is, in fact, found to depend upon the amount of the income that accrues to the married pair, and not upon the way in which that income happens fortuitously to be owned by the members of the union. It is beyond question that in the immense majority of cases where the wife has separate means she contributes to the common purse, either by actual merger of her income with her husband's, or by bearing expenses which in less fortunate households fall upon the husband.
>
> We have given a great deal of time and attention to this subject and have considered with the utmost care all the arguments that have been put before us, and we have been forced to the conclusion that the grievance complained of is more vocal than real, in other words, that it is a grievance rather than a hardship. We therefore recommend that the aggregation of the incomes of wife and husband should continue to be the rule.

With reference to this twaddle about loss of women's rights and that this provision will put a premium upon divorce and a penalty on marriage, that it would cut down the birth rate and so forth, the Royal Commission dignifies that argument by one sentence as follows:

> The statement is also made that the method of assessment imposes a penalty on marriage.

Of course, we are not bound by what England and Canada do, but we should be impelled by the dictates of common sense, fair play, and justice between man and man, between taxpayer and taxpayer, rich and poor alike.

It may be claimed that the civil law gives certain rights. This is the law in France and I think in Spain. There is the civil law.

Mrs. ROGERS of Massachusetts. Will the gentleman yield?

Mr. DISNEY. I yield to the gentlewoman from Massachusetts.

Mrs. ROGERS of Massachusetts. The gentleman said it would place no penalty on marriage. It seems to me it does. Why is it that you have not taxed or prorated alimony settlements?

Mr. DISNEY. Well, that is a subject we are going to have up in the next tax bill. It is a tedious matter.

Mrs. ROGERS of Massachusetts The gentleman has spoken of the English law. It seems to me that the English law has always been unfair to women. I happen to know about the French law, and that is manifestly unfair. We have the best and the fairest laws for women. I may say to the Members here that——

Mr. DISNEY. Mr. Chairman, I did not yield to the gentlewoman to make a speech. I want the gentlewoman to ask me a question, but I do not want her to make a speech on my time.

Mrs. ROGERS of Massachusetts. May I ask the question, then?

Mr. DISNEY. Yes; please ask the question.

Mrs. ROGERS of Massachusetts. Does not the gentleman think it is unfair to take a step backward so far as women are concerned?

Mr. DISNEY. I am going to convince the gentlewoman before I get through that this is not a step backward for women, if she will just wait a minute.

Mrs. ROGERS of Massachusetts. Will the gentleman answer the question after that, if I am not convinced?

Mr. DISNEY. Yes; indeed, I will.

Now we must inquire whether or not this proposition is morally right. I urge upon you, if you have not already read them, the nine reasons stated on pages 13 and 14 of this report, where it is stated:

It is the opinion of your committee that division of income between husband and wife as a tax-saving device has no equitable basis. It results in an unequal distribution of the tax burden as between families similarly situated. The joint-return proposal will overcome the inequities referred to and will result in a more equitable distribution of the tax burden. It appears proper to treat husbands and wives as taxable units for purposes of the Federal income tax.

I recall that in the discussion of the social-security bill, our distinguished floor leader, the gentleman from Massachusetts [Mr. McCORMACK], many times referred to the family as a unit. That is the principle upon which depends the Social Security Act under which we are now operating—that the family is the unit.

Mr. THOMAS F. FORD. Mr. Chairman, will the gentleman yield?

Mr. DISNEY. I yield to the gentleman from California.

Mr. THOMAS F. FORD. Why do you not include the sons of the family where they have an income?

Mr. DISNEY. I am afraid that is a catch question.

The committee further states—

It prevents the income tax law from operating unfairly with respect to a family where all the income is received by one spouse as compared with a family where the income is received by both.

I shall cite a specific illustration, and if it does not convince you, you must be hard to convince.

Mr. BUCK. Mr. Chairman, will the gentleman yield?

Mr. DISNEY. I yield to the gentleman from California.

Mr. BUCK. What does the gentleman have to say about the instance I cited yesterday with regard to the two sisters?

Mr. DISNEY. I will come to it. I am ready for that.

Let me cite you an instance. Your attention was distracted from this first paragraph in the committee's nine suggestions why this should be the law, referring to the differentiation in the tax burden as between families similarly situated.

A certain gentlemen upon hearing this proposal said to me—and this is directed to the special attention of the gentlewoman from Massachusetts [Mrs. ROGERS]—"I make $40,000 a year. I earn it. my wife has a $6,000 income from investments which she inherited. Are you going to make me pay her taxes?"

I said, "The proposal is not that. She pays her own taxes and you pay your own taxes in proportion to the total income. That is the basis upon which it is figured."

"Won't my wife have to pay more taxes?"

"Yes; some," I replied "We are going to calculate both of your taxes on the basis of your total income of $46,000."

He replied, "That is unfair and unjust."

I said, "What about the gentleman who lives right down the street from you, in the next block, whose wife has no independent income, but who himself earns $46,000 a year? He pays on a $46,000 base. Does he not have to pay his taxes, both normal and surtax, on the $46,000 base, while you and your wife, by your divided returns, avoid some surtaxes?"

Finally he said to me, "I see the justice and the propriety of this proposal. My wife's income certainly adds to the family income. To do as we have been doing is unfair to the man with the $46,000 income down the street, whose wife has no independent income."

Let us go to the other extreme. About the same time I had an interview with a Marine sergeant from Tulsa stationed out here at Quantico. He told me that out of his salary of $66 a month, $6 went to the support of his widowed family, $25 was the lowest rent he could find for a place to keep his wife and two babies, and the milk bill for his little family amounted to about $10 a month.

I asked him what he got out of his salary, and he as pleasantly as the rich man after we concluded the discussion replied, "Cigarette money; but I have my wife and babies."

I do not want to be tedious, but I do want to redirect your attention to these nine points raised by the committee. Surely you will not overlook reading them.

The second point is—

It removes the discrimination under the present law against earned income in favor of investment income.

That is what it is, a discrimination when in 40 States you cannot divide your income with your wife and in 8 States you can.

Our distinguished friend the gentleman from Ohio [Mr. JENKINS] yesterday took the side of the 5-percent group, but on page 6469 in Chairman DOUGHTON'S address you will find that in Mr. JENKINS' great State of Ohio, out of 330,967 tax returns, 12,565 filed separate returns. In other words, 3.7 percent in Ohio got the tax advantage, the 12,000 are enjoying a special tax privilege that the other folks are paying for, the others who filed returns and those who are paying only excise taxes. Ninety-six and three-tenths percent of the 330,000 in Ohio had to contribute more taxes in order that the 12,000 might enjoy their privilege of tax avoidance.

I wonder now why our good friend from Ohio, and others similarly situated, will not heed the warning that is contained in these figures and in the figures shown at page 16 of the report, which gives the information to you with respect to every State of the Union. You only have to look at the table to find it.

As another specific instance, Chairman DOUGHTON received a letter from a widow that teems with the personal element. I take the privilege granted by him to read it. This ought to interest you ladies, as well as you men, and it ought to interest everyone who is interested in plain, square, fair justice between taxpayers. I will read the letter:

I am a widow—I have been for 2 years. The income that was "ours" and returned separately, at my husband's death became "my" income and was shot immediately into the higher bracket. This, although there was no longer any earning capacity in our family. Both my children are minors. I note that probably I can expect exemption for only one child in the tax scheme. This, too, although there is not any longer any earning capacity or prospect of any better income or living by virtue of the fact that my husband is dead. It seems to me that if a widow can accept, without complaint, and gladly because of the necessity, such increase in her taxes, two people spared each other's love and companionship can adjust their living to the necessity of their country. If they were not fortunate in having a much more than average living, they would not have the tax to pay.

Mr. GEARHART. Mr. Chairman, will the gentleman yield?

Mr. DISNEY. Let me first conclude the reading of the letter.

As for those couples who threaten divorce if their incomes are combined for tax purposes, I hope the Government in all sincerity will tell them to get their divorces. Neither their children nor the spirituality of their country will be served by the continued mating of two people held together by such ignoble motives. The satisfaction will be small should they admit it, or the spending of the dollars saved to themselves by failing their country in this, its hour of need.

As for the poor man who dreads his wife knowing what his real income is—and there have been some instances like that suggested to the committee—he must be pretty miserable already and much as a humane Congressman would like to keep from increasing his misery by forcing an exposé of his valiant efforts to provide for his family's future, I should think his plight would have to be his sacrifice to his country.

Mr. GEARHART. Mr. Chairman, will the gentleman from Oklahoma yield?

Mr. DISNEY. I now yield to the gentleman.

Mr. GEARHART. I think we are laying altogether too much emphasis on the distinction which may exist between community-property States and States where that system does not prevail.

Mr. DISNEY. We have to leave it in because that is what causes the trouble. That is the reason we have had hearing upon hearing on community-property laws.

Mr. GEARHART. In listening to the gentleman I have gained the impression, perhaps incorrectly, that the gentleman assumes that all of the income of each of the spouses is community property which may be divisible for purposes of income tax.

Mr. DISNEY. That is the statement made by the gentleman's colleague, the gentleman from California [Mr. BUCK].

Mr. BUCK. I beg the gentleman's pardon.

Mr. DISNEY. Then I am in error.

Mr. GEARHART. Let me continue, if you please. The gentleman gave an example a moment ago of a woman who became a widow and her income went up into the surtaxes by reason of the property inherited from her husband. This illustrates quite clearly the fallacy which seems to control the thought of so many Members of the Congress. We have in California a dual system. The husband and wife may each have separate property and they may have together community property and when she inherited property from her husband, that which

she received ceased to be community property and became her separate property and as a widow she would thereafter pay her tax upon the income derived from that which she inherited, like everybody else in the United States.

Mr. DISNEY. But it was a fine advantage when she had a husband.

Mr. GEARHART. It is but a small advantage at best, if you please. This joint income-tax return proposal is not offered to correct any disadvantages suffered by people who live in other than community property States. This change is made for the sole and only purpose of writing another formula for levying taxes which will produce $350,000,000. Because I think it is a decidedly unjust, a discriminatory, a completely unfair method of mulcting the American people of their hard-earned income I shall vote to eliminate it from the bill. You who favor this unfortunate proposal are merely lumping incomes for the purpose of forcing those taxpayers up into the surtax brackets just for the purpose of compelling married people to pay more, three and one-half billion dollars more. If that does not penalize the marriage relation, what would?

Mr. BUCK. Mr. Chairman, will the gentleman yield?

Mr. DISNEY. Just for a question, not for an observation.

Mr. BUCK. But the gentleman has used my name. He said that I had made a certain remark, which I think he has misinterpreted. Certainly in any community property State, when the earnings of the husband and wife are made during coverture they are community property income. If a husband has earned or has property from which he is receiving income before marriage, or if the wife has, either way, that is not community property income.

The CHAIRMAN. The time of the gentleman from Oklahoma has expired.

Mr. DOUGHTON. Mr. Chairman, I yield the gentleman 10 minutes more.

Mr. BUCK. I would like to get this into the RECORD.

Mr. DISNEY. I suggest to the gentleman that he put it in in his own time.

Mr. BUCK. But I cannot get any more time. I have already had 30 minutes.

Mr. DISNEY. There are lots of community property people here to make speeches. Why not get them to do it.

Mr. BUCK. This is the question, Does the gentleman not understand that the income earned from property which the husband or wife owned before marriage, or that either of them received by gift or dissent, is separate income, and can be paid separately?

Mr. DISNEY. I do not think that is pertinent here at all.

Mr. BUCK. And when you combine that together, you are only making a fictitious income.

Mr. SUMNERS of Texas. Mr. Chairman, if the gentleman will permit, will he kindly discuss the constitutional question?

Mr. DISNEY. I will if I can get the time. Surely the gentleman does not take the view that the Congress cannot constitutionally pass such an act.

Mr. SUMNERS of Texas. May I say to my friend I think it is sufficiently important that the gentleman be good enough to discuss it and give the view of the committee as to why it thinks it can levy this tax? I myself question it, but I do not want to make that observation now.

Mr. DISNEY. I have hardly gotten started. I presume I should not have yielded any of my time.

Mr. DOUGHTON. Mr. Chairman, I yield the gentleman 10 minutes additional.

Mr. DISNEY. Mr. Chairman, the suggestion is made by the gentleman from California [Mr. BUCK] about two sisters. Each acquired by inheritance or gift from their father a certain amount of money. One of them is married to a husband who is making a large income. The other is single. The single daughter will be taxed only upon the income from the $20,000 which she inherited, while the married daughter will pay an income tax on the income from the $20,000 she received and also the earnings of her husband. Has not the married sister a greater ability to pay than the single sister? She not only has the income from the $20,000 but she also has that of her husband, who is earning a substantial income. The taxable capacity of that family is much greater as compared with the taxable capacity of the single sister, whose only income is from the $20,000. I can well understand that the single sister would be willing to assume a greater tax burden, if she could be placed in the same status with her married sister. Furthermore, why should a family of that taxability be favored over a family where all of the income is earned by the husband? To go back to the illustration about the $46,000 man, why should that family be favored in that manner? Existing law places the other family in a much less favorable status. Yet each family has the same tax-paying ability. We certainly should not treat families differently because of the way the income happens to be happily or fortuitously obtained by the members of this union.

Mr. Chairman, I have more material than I shall be able to use in the time allotted to me. The gentleman from Texas, Judge SUMNERS, whose opinion we all rely upon on legal matters, inquires as to the constitutionality of this proposal.

He wants to know, has the Federal Government the power to pass this kind of a statute?

Do the State constitutions and statutes prevent and make unconstitutional this proposed exercise of power by the Federal Government?

It has been pointed out that the constitution of some of the community property States make provision for the community-property system and declare that that system is forever the law by the basis of property laws regarding husband and wife within that State. It is urged, further, that any Federal enactment which does not give proper weight to the provisions of such State constitutions and laws under the Federal Constitution would be unconstitutional.

Now, have any of you recently read the sixth article to the Federal Constitution? It reads like this:

> This Constitution and the laws of the United States which shall be made in pursuance thereof, and all treaties made, or which shall be made, under the authority of the United States, shall be the supreme law of the land; and the judges in every State shall be bound thereby, anything in the Constitution or laws of any State to the contrary notwithstanding.

An illustration of the supremacy of the Federal Constitution and the revenue laws and under which particularly pertains in this regard, as a parallel, may be found in the Burk-Waggoner case, a Texas case.

Mr. BUCK. Mr. Chairman, will the gentleman yield?

Mr. DISNEY. No; I am not going to yield.

Mr. BUCK. The Treaty of Guadaloupe Hidalgo is still in effect.

Mr. DISNEY. If you think that treaty supersedes the Constitution of the United States when Texas and California came under the Constitution of the United States under this provision, your view of the law is entirely different from mine.

Now, it was said yesterday that to pass this upsets all the law in the community-property States; the law of wills, and so forth. The gentleman from Washington [Mr. MAGNUSON] rather amplified on that subject. But it does not do that. This is only for Federal tax purposes. It disrupts no other rule of law. For Federal tax purposes the Federal law, in my judgment, is supreme.

For instance, in the Hamel case, involving the sale of oil under royalty contract, under the law of Texas that was a sale of the oil in place. The taxpayer took the view that the capital-gains tax was all he was required to pay. The department took the view that this was in the nature of royalty income and subject to income tax. The Supreme Court held with the department's view, to the effect that this was income. It did not have to set aside the law of Texas, holding that this was a sale of oil in place. It remained the law for State purposes, and still is the law; but for Federal income-tax purposes the law of Texas was superseded by the Federal income-tax law.

The Supreme Court in another case made this discussion:

> The power of Congress so to tax associations is not affected by the fact that, under the law of a particular State, the association cannot hold title to property, or that its shareholders are individually liable for the association's debts, or that it is not recognized as a legal entity. Neither the conception of unincorporated associations provided under the local law, nor the relation under the law of the association to its shareholders, nor their relation to each other and to outsiders, is of legal significance as bearing upon the power of Congress to determine how and at what rate the income of the joint enterprise shall be taxed.

Mr. SUMNERS of Texas. Will the gentleman incorporate the citation in his remarks?

Mr. DISNEY. Yes. That is Two Hundred and Sixty-ninth United States Reports, at page 110.

This decision demonstrates in like fashion that community property laws of the various States cannot in any fashion restrict the Congress of the United States from determining the rate at which a married couple should be taxed.

The Supreme Court, in an increasing variety of cases, has called attention to

the fact that the unity of family may be recognized by Congress as such in Federal revenue acts. The Supreme Court has gone further than is proposed in this bill, for it taxes the husband's income which belonged to his wife, merely because he possessed some control over the property from which that income was derived, although such control would not permit him to obtain that income.

After the Robbins case in California, holding that a wife did not have a vested right in the community property, but only a mere expectancy, the legislature passed the law giving the spouse a vested right.

The CHAIRMAN. The time of the gentleman from Oklahoma has again expired.

Mr. DOUGHTON. Mr. Chairman, I yield the gentleman 10 additional minutes.

Mr. GIFFORD. Mr. Chairman, will the gentleman yield?

Mr. DISNEY. Yes; I yield.

Mr. GIFFORD. Do you believe in the community-property law in the States? Do you believe in the principle of it?

Mr. DISNEY. Yes. It is all right for the States, but it should not conflict with the Federal taxing power.

Mr. GIFFORD. After we do this, they may want to do the same thing, and it would create a great deal of trouble, would it not?

Mr. DISNEY. I do not understand the gentleman.

Mr. GIFFORD. I am glad to know you approve of the community-property law.

Mr. DISNEY. It is all right. Let the States have it.

Mr. GIFFORD. But what about the effect of what we do upon them?

Mr. DISNEY. We have a right to act upon that Federal community-property law for tax purposes.

Mr. GIFFORD. But you are showing the viciousness of it.

Mr. DISNEY. Let us go further on that suggestion, then. Let us suppose that New York passes it. Oklahoma passed it in self-defense, because wealthy people were leaving and going to Texas to avoid paying taxes. She passed it in self-defense, avowedly. It was so discussed in the legislature. Let us suppose that New York, the richest State in the Union, then Pennsylvania, and on down the line, Ohio, Illinois—let us suppose they passed community-property laws; then you would not be getting enough Federal income tax to run this Government 6 weeks.

Mr. GIFFORD. That is done right along in the matter of intangibles, one State claims an advantage over another to attract people to the State. You will not find any tax bill that is not full of discrimination of one sort or another.

Miss SUMNER of Illinois and Mr. KEEFE rose.

Mr. SUMNERS of Texas. Mr. Chairman, will the gentleman yield for a suggestion?

Mr. DISNEY. I yield.

Mr. SUMNERS of Texas. I think we would all like to have in continuity the gentleman's discussion of the constitutionality of this legislation, which he was engaged in. We have great respect for his opinion, and I hope the gentleman will state it without interruption.

Mr. DISNEY. Apparently, I am not able to proceed that way.

Mr. SUMNERS of Texas. The gentleman is just too polite, that is all; do not yield to us.

Mr. DISNEY. Keep in mind this, please. This proposal does not tax the husband on the wife's income; it merely joins the income of both to measure the rate of taxation. The only Supreme Court case that bears out any contention that this tax is unconstitutional is the so-called Hooper case, *Hooper* v. *The Tax Commission* (284 U. S. 206). Read the report, and you will find this case thoroughly dissected. This case did not turn upon a Federal constitutional question; it turned upon the question of the constitutionality of a statute passed by a State legislature attempting to lay a tax upon the husband for the wife's income. That is what was involved, but that is not involved here. The Hooper case was squarely upon the question whether the State could make you pay your wife's taxes. That is the turning point in that case, and the report thoroughly discusses that feature. The attempt of the Wisconsin law was to make the husband pay the wife's taxes, and vice versa. This proposal does not in any way, shape, or form make that attempt. Generically, the sixteenth amendment puts into effect an excise tax. That is what the income tax is in substance, an excise tax, because it is generically an excise tax doing away with geographical and proportionate distributions. When it becomes an excise tax, then becomes involved the right of Congress to classify taxpayers, and if it is done in a reasonable manner without discrimination it does not violate either State or Federal Constitutions, or Federal processes. We can tax lawyers under the excise process in one way, tax doctors in another way. We can tax one businessman in one way and a different type of business in a wholly different way provided as between the men, women, and corporations of the class provided we do not discriminate between members of the class. That is the test and the very widest range is given to legislatures and the Congress in their determinations how they shall classify taxpayers.

Mr. SUMNERS of Texas. Mr. Chairman, will the gentleman yield?

Mr. DISNEY. I yield.

Mr. SUMNERS of Texas. Does the gentleman want us to understand that the Congress can levy a different income tax on doctors from the tax they levy on lawyers?

Mr. DISNEY. The illustration maybe is unfortunate, but the gentleman will agree that we have the right to classify taxpayers so long as we do not discriminate between the individuals of a class. Is not this the general rule, I ask the gentleman: That so long as the legislature, the council, or the Congress does not discriminate between the individuals of a class, it is not violative of the constitutional prohibition against discrimination.

Mr. SUMNERS of Texas. The gentleman is correct.

Mr. DISNEY. But we may discriminate between classes. I do not think any lawyer will disagree on that proposal.

Miss SUMNER of Illinois. Mr. Chairman, will the gentleman yield?

Mr. DISNEY. I yield.

Miss SUMNER of Illinois. It seems very obvious to me that if this bill passes, sooner or later some spouse is going to come up in the Supreme Court saying, "I had a very small income, or my husband had a very small income," as the case may be, "yet my income, small though it was, threw my spouse's total into a higher surtax bracket, so that my income tax was higher than my net income." That would be clearly unconstitutional, and the Court would have to declare that the law was unconstitutional.

Mr. DISNEY. The gentlewoman knows, as a matter of fact all Members do, that we may discriminate between single people and married people. We are doing that in this bill and have done it in every tax bill since 1913.

Miss SUMNERS of Illinois. But we may not, under the sixteenth amendment, tax a person more than his or her income.

Mr. DISNEY. We have not got to the point of taxing people more than their incomes.

Mr. REED of New York. Mr. Chairman, will the gentleman yield?

Mr. DISNEY. I yield.

Mr. REED of New York. Right in that connection, I want to remind the gentleman that we do that in the case of corporations, that we tax them, and they have to pay the tax even though they are in the red—the capital-stock tax.

Mr. DISNEY. There is no attempt in this provision to interfere with the property laws of any State. This bill merely takes the husband and wife together as a taxable unit for Federal tax purposes. In my opinion it does not interfere with the property rights of the States at all.

The question as to whether or not the Congress may make its Federal income-tax laws turn upon State laws is a question for the Congress to decide. In the community-property case of Poe against Seaborn, which will be relied upon by opponents of this measure, the Supreme Court held that the present Federal income-tax statute was not specific enough to permit the taxation of all the community property to the husband because the wife had a vested interest in half of the community property. The court interpreted the present Federal statute as taxing income only to the owner thereof and its ownership was fixed by law. In other words, Justice Roberts substantially said in Poe against Seaborn that Congress had not gone as far as it could go. But the Court has pointed out in any number of cases that the Congress may or may not follow the State law in determining whether or not a person is liable for an income tax. In fact, the Supreme Court in the Harmel case cited in the community-property case of Poe against Seaborn is authority for the statement that State laws may control only when the operation of the Federal taxing act by express language or by necessary implication makes its

own operation dependent upon State law. In this proposal we are treating the husband and wife as a taxable unit, exactly like the Federal law treats some partnerships as corporations for Federal tax purposes, although they are recognized only as partnerships under State law.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield the gentleman 10 additional minutes.

Mr. COOPER. Will the gentleman yield for an observation?

Mr. DISNEY. I yield to the gentleman.

Mr. COOPER. This brings the gentleman up to 1 hour and even if further time is yielded, it can only be on condition that the Committee as a whole agrees.

Mr. DISNEY. Mr. Chairman, let me read this citation from the case of Poe against Seaborn:

> The case requires us to construe sections 210 (a) and 211 (a) of the Revenue Act of 1926 and apply them, as construed, to the interests of husband and wife in community property under the law of Washington. These sections lay a tax upon the net income of every individual. The act goes no further, and furnishes no other standard or definition of what constitutes an individual's income. The use of the world "of" denotes ownership. It would be a strained construction, which, in the absence of further definition by Congress, should impute a broader significance to the phrase.

In other words, in my judgment, this paragraph is tantamount to Justice Roberts saying that if the Congress had gone further, it would have been sustained.

Mr. KEEFE. Will the gentleman yield?

Mr. DISNEY. I yield to the gentleman from Wisconsin.

Mr. KEEFE. If this bill passes and becomes law, a husband enjoying an income of $10,000, regardless of its sources and his wife with an income of $5,000, will be compelled to file a joint return?

Mr. DISNEY. Yes.

Mr. KEEFE. Showing a taxable income for tax computation purposes of $15,000?

Mr. DISNEY. Yes.

Mr. KEEFE. Now, if I understand it correctly, when the bill is presented for payment of that tax the wife under those circumstances would be billed on the basis of her share of the income, namely, one-third and the husband two-thirds. Is that right?

Mr. DISNEY. May I answer that in this way?

Mr. KEEFE. Or is it going to be billed entirely to the husband?

Mr. DISNEY. Oh, no. Read the bill.

Mr. KEEFE. I understand it will be billed to each?

Mr. DISNEY. Read the bill and the report and that will be as clear as day. It is billed ratably.

Mr. KEEFE. I understand that exactly, and I am asking the gentleman as a matter of procedure—I understand that and I so stated—the wife would be billed for one-third of the income?

Mr. DISNEY. Not one-third. The calculation is a little different.

Mr. KEEFE. Can the gentleman explain that?

Mr. DISNEY. It is right in the report.

Mr. KEEFE. I confess I do not get it as easily as that from the report or the bill. I do not understand it at all. I would like to understand it before I vote on this proposition.

Mr. DISNEY. If the gentleman will read the report he will understand it. It is there.

Mr. KEEFE. I have read the report, and I think there are a lot of Members on this floor who have read it and who do not understand it. I would like to understand it.

Mr. DISNEY. Mr. Chairman, let us take a look at the practical effect of this proposal. I wish the Members would look at page 17 of the report. You will find this very practical thing confronting you. We might not be compelled to go to the personal income-tax schedule to take up the slack of $323,000,000, but there is where we would most likely have to go. We might be compelled to go there. If you look at page 17 of the report you will find that on this $10,000 income at $1,166, if we have to go over to Schedule B, then the tax on the $10,000 income would be $1,628.

On the $2,500 income, which under the present tax law would be $30.50, under the new bill it would be $71.50. The $3,000 income tax would jump from $85 to $151. The $4,000 income jumps up to $312. The $5,000 income from $308 to $506. That is what confronts you. You are not going to add additional excise taxes when we have already more than a billion. We have gone apparently as far as we possibly can on corporate taxes.

The only place we can go is to additional income taxes. The best illustration I can cite to you is that taxes on your own income will jump from $1,166 to $1,628, and all down the line the situation will be proportionate. You are not going to do that. You are going to make the 5.77 percent of the people do like the 94 percent of the people, make them file their tax returns as the 94 percent of the people do, and not give them the tax advantage over this vast array, this vast army of taxpayers. Justice and right demand that we pass this provision in this language.

Go with us in our hunt for $323,000,000. Any member of the committee will tell you that the consideration invariably leads to higher personal-income taxes, with a proportionate jump, as I have suggested, from $1,166 on a $10,000 income to $1,628, and maybe even higher taxes than that, with a new tax bill next year. You are not going to be able to avoid this thing.

Do I need to say more in a demand for equality of taxation, for right between taxpayer and taxpayer? You can take this list of States and see that the very few who have been so insistent in opposition and conjuring up this propaganda against this suggestion are inevitably those who are seeking an advantage, who are legally entitled to an advantage under existing law, and who have been getting an advantage, that 5.77 percent as against the 94 percent. They have an advantage not only over the 94 percent of those who make returns, but they have an advantage over those who are paying hidden taxes, that vast army of small excise-tax payers, in addition to the 94 percent of those who make tax returns.

Mr. WOODRUFF of Michigan. Mr. Chairman, will the gentleman yield?

Mr. DISNEY. I yield to the gentleman from Michigan.

Mr. WOODRUFF of Michigan. Is it not true that every member of the committee has been faced with the most efficient, an almost overwhelming, organized propaganda on this question that has ever come to our desks?

Mr. DISNEY. I have never seen a more unenlightened propaganda since I have been here. It has not been based on the merits of the proposal.

Mr. WOODRUFF of Michigan. I agree with the gentleman that it has been unenlightened propaganda; nevertheless it has piled our desks high with embossed stationery.

Mr. DISNEY. It comes from those interests, the 5.77 percent that are getting a tax advantage over the other 94 percent of tax reporters and the additional army that are paying excise taxes.

Mr. BUCK. Mr. Chairman, will the gentleman yield?

Mr. DISNEY. I yield to the gentleman from California.

Mr. BUCK. Does not the gentleman realize that we can pick up $160,000,000 of taxes, or half of what this proposition would bring in, from a tax on gasoline, and that there are a good many other taxes which could be imposed?

Mr. DISNEY. You try to pass a gasoline tax through this House and put the burden on the gasoline users. Is not that a fine argument to bring before the House? Put the burden on the people who are already paying gasoline taxes up as high as 10 cents in some States. Splendid, unselfish suggestion.

The gentleman is trying to leave the implication that I am for this proposition in order to avoid increased gasoline taxes. Gasoline taxes are not any more important to me than to any other Member of the House, although I am from an oil State.

You go hunting through the avenues of taxation for more revenue and you just wreak more injustice on the persons who have been paying hidden taxes to the amount of millions of dollars a year. One pack of cigarettes a day costs the taxpayer $21.60 a year in taxes.

Let us talk about gasoline taxes. Down in Tennessee when you buy 10 gallons of gas you have to leave at the filling station almost a dollar bill in addition, for taxes. You are not going to do any such silly thing as put an additional tax on gasoline. It could not pass the House. You are going to have to go to personal income taxes, lowering the exemptions and maybe creating additional hardship; but where you are going to hit hardest is on the average, the middle-class incomes. And all for the benefit of whom? A small group, 5.77 percent, who want an advantage over the 94 percent and an advantage over those who do not file any tax returns.

[Here the gavel fell.]

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from New York [Mr. REED].

Mr. REED of New York. Mr. Chairman, the opponents of the joint-return provision claim that it is unconstitutional. I believe that a careful examination of this subject will lead to a contrary conclusion. Let us look at the provisions of the Constitution which might affect this proposition.

Article I, section 8, clause 1, of the Constitution provides that:

The Congress shall have power to lay and collect taxes, duties, imposts, and excises, to pay the debts and provide for the common defense and general welfare of the United States; but all duties, imposts, and excises shall be uniform throughout the United States.

In commenting upon this authority of Congress to levy taxes, the Supreme Court said—*Brushaber* v. *Union Pac. R. R. Co.* (240 U. S. 1):

That the authority conferred upon Congress by section 8 of article I of the Constitution to lay and collect taxes, duties, imposts, and excises is exhaustive and embraces every conceivable power of taxation, has never been questioned, or if it has, has been so often authoritatively declared as to render it necessary only to state the doctrine.

The limitations that direct taxes must be apportioned according to population (art. I, sec. 9, cl. 4) and that all duties, imposts, and excises shall be uniform throughout the United States were not so much a limitation upon the complete and all-embracing authority to tax, but in their essence were simply regulations concerning the mode in which the plenary power was to be exerted (*Brushaber* v. *Union Pac. R. R. Co.*, 240 U. S. 1).

The Supreme Court has repeatedly upheld the power of Congress to classify subjects of taxation. *In Flint* v. *Stone Tracy Company* (220 U. S. 1) the Court held that—

In levying excise taxes the most ample authority has been recognized from the beginning to select some and omit other possible subjects of taxation, to select one calling and omit another, to tax one class of property and to forbear another.

In the *Pollock Cases* (157 U. S. 557), the Supreme Court held that the income tax of 1894 was unconstitutional because it was not apportioned according to population. The Constitution requires that direct taxes are subject to the rule of apportionment. But this decision did not hold that the income tax was generically a direct tax. This is brought out by Mr. Justice White in *Brushaber* v. *Union Pacific Railroad Company* (240 U. S. 1), in which, in referring to the Pollock case, he said:

Moreover, in addition, the conclusion reached in the Pollock case did not in any degree involve holding that income taxes generically and necessarily came within the class of direct taxes on property, but, on the contrary, recognized the fact that taxation on income was in its nature an excise entitled to be enforced as such unless and until it was concluded that to enforce it would amount to accomplishing the result which the requirement as to apportionment of direct taxation was adopted to prevent, in which case the duty would arise to disregard form and consider substance alone, and hence subject the tax to the regulation as to apportionment which otherwise as an excise would not apply to it. Nothing could serve to make this clearer than to recall that in the Pollock case, insofar as the law taxed incomes from other classes of property than real estate and invested personal property—that is, income from "professions, trades, employments, or vocations" (158 U. S. 637), its validity was recognized; indeed, it was expressly declared that no dispute was made upon that subject, and attention was called to the fact that taxes on such income had been sustained as excise taxes in the past (id., p. 635). The whole law was, however, declared unconstitutional on the ground that to permit it to thus operate would relieve real estate and invested personal property from taxation and "would leave the burden of the tax to be borne by professions, trades, employments, or vocations; and in that way what was intended as a tax on capital would remain in substance a tax on occupations and labor" (id., p. 637), a result which, it was held, could not have been contemplated by Congress.

The sixteenth amendment of the Constitution provides:

The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration.

It was contended in the Brushaber case construing the Revenue Act of 1916 that—

As the amendment authorizes a tax only upon incomes "from whatever source derived," the exclusion from taxation of some income of designated persons and classes is not authorized.

The Court, after quoting the amendment, went on to state:

It is clear on the face of this text that it does not purport to confer power to levy income taxes in a generic sense—an authority already possessed and never questioned—or to limit and distinguish between one kind of income taxes and another, but that the whole purpose of the amendment was to relieve all income taxes when imposed from apportionment from a consideration of the source whence the income was derived. Indeed, in the light of the history which we have given and of the decision in the Pollock case, and the ground upon which the ruling in that case was based, there is no escape from the conclusion that the amendment was drawn for the purpose of doing away for the future with the principle upon which the Pollock case was decided; that is, of determining whether a tax on income was direct not by a consideration of the burden placed on the taxed income upon which it directly operated but by taking into view the burden which resulted on the property from which the income was derived, since in express terms the amendment provides that income taxes, from whatever source the income may be derived, shall not be subject to the regulation of apportionment. From this, in substance, it indisputably arises, first, that all the contentions which we have previously noticed concerning the assumed limitations to be implied from the language of the amendment as to the nature and character of the income taxes which it authorizes find no support in the text and are in irreconcilable conflict with the very purpose which the amendment was adopted to accomplish.

The Court concluded that the only effect of the amendment was—

the prevention of the resort to the sources from which a taxed income was derived in order to cause a direct tax on the income to be a direct tax on the source itself and thereby take an income tax out of the classes of excises, duties, and imposts—

and place it in the class of direct taxes.

This was reaffirmed in the case of *Stanton* v. *Baltic Mining Company* (240 U. S. 103). The Court said:

But aside from the obvious error of the proposition intrinsically considered, it manifestly disregards the fact that by the previous ruling it was settled that the provisions of the sixteenth amendment conferred no new power of taxation but simply prohibited the previous complete and plenary power of income taxation possessed by Congress from the beginning from being taken out of the category of indirect taxation to which it inherently belonged and being placed in the category of direct taxation subject to apportionment by a consideration of the sources from which the income was derived; that is, by testing the tax not by what it was—a tax on income—but by a mistaken theory deduced from the origin or source of the income taxed. Mark, of course, in saying this we are not here considering a tax not within the provisions of the sixteenth amendment; that is, one in which the regulation of apportionment or the rule of uniformity is wholly negligible because the tax is one entirely beyond the scope of the taxing power of Congress and where consequently no authority to impose a burden direct or indirect exists. In other words, we are here dealing solely with the restriction imposed by the sixteenth amendment on the right to resort to the source whence an income is derived in a case where there is power to tax for the purpose of taking the income tax out of the class of indirect, to which it generically belongs, and putting it in the class of direct, to which it would not otherwise belong, in order to subject it to the regulation of apportionment.

See also the case of *Tyee Realty Company* v. *Anderson* (240 U. S. 115). These cases clearly demonstrate that the only effect of the sixteenth amendment was to remove the income tax on property from the direct class and put it in the class of an excise or indirect tax to which it inherently belonged.

Since the income tax is an excise tax, the Court properly held it could be classified.

The Court upheld the provisions of the Revenue Act of 1913 giving the Congress the power to classify incomes and provide exemptions. In that first act, it was contended that married people living together were discriminated against as compared to single persons and married persons not living together. Under that act, single persons were allowed a personal exemption of $3,000 apiece as well as married persons not living together. But married persons not living together were allowed a personal exemption of only $4,000 in the aggregate. But the Court did not hesitate to hold that such a classification was reasonable and within the power of Congress. The Court was careful to point out that the due-process clause of the fifth amendment, which was cited, to invalidate this classification, had no application. It stated that the fifth amendment is not a limitation upon the taxing power unless the taxing provision is so palpably arbitrary and unreasonable as to lead to the conclusion that it is not an exercise of taxation but a confiscation of property; or what is equivalent thereto, is so wanting a basis for classification as to produce a gross and patent inequality. (*Brushaber* v. *Union Pacific Railroad Company*, 240 U. S. 1.)

If the Congress can classify income for the purpose of granting relief, it seems clear that it can classify income for the purpose of determining ability to pay.

The committee bill by making this classification levies the tax according to ability to pay. As stated in the committee report:

> The taxable capacity is made to depend upon the income that accrued to the marital community and not upon the way that income happens fortuitously to be owned by members of the union. In the majority of cases where the wife has separate income, she contributes to the common purse, either by actual merger of her income with her husband's or by bearing expenses which in less fortunate households fall upon the husband.

Some of the opponents of the bill have claimed it is unconstitutional because of certain community-property cases decided by the Supreme Court several years ago. These cases are *Poe* v. *Seaborn* (282 U. S. 101); *Goodell* v. *Koch* (282 U. S. 118); *U. S.* v. *Malcolm* (282 U. S. 792); *Bender* v. *Pfaff* (282 U. S. 127); and *Hopkins* v. *Bacon* (282 U. S. 122). These cases merely held that under existing law Congress did not intend to tax the community income to the husband. They did not settle the question as to the power of Congress to tax such income to the husband. While the courts did hold that the wife had a vested interest in the community income under the State law, this could not be construed as denying the right of Congress to classify husband and wife as a taxable unit.

The Government in these cases was attempting to tax all the income to the husband and make him liable for the whole tax. This was also the situation in the *Heoper Case* (128 U. S. 206), decided under the Wisconsin law. In that case, while the State law required a mandatory return, the husband was made liable for the whole tax. The appellant made this clear in the opening statement of his brief when he said:

> Whether the two statutes might have been construed as together authorizing only a collection from each spouse of that one's proportionate share of the tax is not involved (brief for appellant, p. 5).

Therefore the Court did not pass upon the question presented by the proposed provision. It treated the problem before it as being merely that of taxing one person for another's income and although this approached the real issues involved, it was a view that the Court could logically take since the whole tax was imposed upon the husband.

The joint-return provision will eliminate one of the most prevalent methods of avoiding progressive income taxes through interspouse gifts, trusts, and partnerships. The Supreme Court in any number of cases has held that this could be done without violating the due-process clause of the fifth amendment. In *Helvering* v. *City Bank Farmers' Trust Co.* (291 U. S. 336), the Court said:

> Congress may adopt a measure reasonably calculated to prevent avoidance of a tax. The test of validity in respect of due process is whether the means adopted is appropriate to the end.

In Lucas against Earl, the husband attempted to divide his earnings between his wife and himself to avoid income taxes. The Supreme Court refused to recognize this assignment for Federal income-tax purposes, even though it was a valid assignment under State law.

I find no justification for holding the committee provision unconstitutional.

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from Maine [Mr. FELLOWS].

Mr. FELLOWS. Mr. Chairman, the people of the State of Maine make no complaint against necessary taxes. They do deplore and protest the waste and extravagance of this administration. The Treasury Department calls for a tax bill that will produce additional revenue of three billion five hundred millions. The same Department suggested that the Congress could save from nondefense expenditure one billion. No effort has bas been made to curtail nondefense expenditures. It is the extravagance of the last 8 years that has made it necessary to impose upon the people of America this neck-wrenching tax bill.

There are those who say, "Now that the 'horse and buggy' age has passed, let us throw off its philosophy." The "horse and buggy" age invented no philosophy. There is a very much older principle. It is the principle that raised us up to the "horse and buggy" age—also raised us above it—and its work is only beginning. It is a very simply principle—that if you want food you must plant it; if you want a house you must build it; if you want an education you must toil for it, and if one man can do this all men can do it—that a man's promise is to be kept and a man's debt is to be paid. The people of Maine still recognize the word "thrift" in their vocabularies.

I am opposed to the provision in this tax bill that requires husbands and wives to make a joint return. The women of America have an individuality—social, economic, and political. The women of Maine have the vote. They may own property, sell property, inherit property, and will property. They may sue and be sued without the husband's joinder. They serve on our juries.

We prepare to defend this Republic, and in our desperate effort to make up in a measure for the vicious waste of the last 8 years, we strike at its foundations. This joint return provision is unfair, un-American, and dangerous.

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from Iowa [Mr. LECOMPTE].

Mr. LECOMPTE. Mr. Chairman, the chief purpose of this bill, namely, raising more money for national defense, has my approval and, general speaking, the endorsement of my party. I am not in accord with the method of consideration—a closed or gag rule—which prevents individual Members from offering amendments for the consideration of the whole House. In many cases the bill is, at least, open to debate.

If we are to avoid the dangers and pitfalls of inflation or repudiation, it must be manifestly apparent that a greater proportion of the extraordinary expenses of this emergency be met by increasing the tax income of the Government. We cannot continue to borrow and borrow without incurring the dangers of impairing the Federal credit.

For 10 solid years the Federal Budget has been out of balance. We have been spending more than we have been taking in. A family or an institution cannot continue a policy of this kind without running into serious difficulties and jeopardizing its future and certainly the Government cannot escape the inevitable calamity of such a program.

The taxpayers of America who must bear the burden of this tax bill have a right to expect that every nondefense activity of the Government will be reduced. This bill comes before the House right on the heels of the biggest appropriation bill ever considered in the history of the Republic, I believe. We are all for adequate defense, but there are scores of nondefense activities of the Government wherein economies could be effected.

When the World War broke out the national debt of this country was so small as to be of little consequence—probably a billion and a half. In a decade, from 1910 to 1920, the national debt leaped to about $27,000,000,000. During the twenties it was reduced at the rate of about a billion a year to seventeen or eighteen billion dollars, these figures being more or less general, of course.

With the advent of the New Deal the floodgates were thrown open and the national debt has gone to astronomical figures. It now stands at somewhere near $50,000,000,000, and we are only now entering the emergency.

Next year the debt may reach sixty billion, and it is easy to imagine that it may reach one hundred billion before the present emergency is circumvented and we begin to set our house in order again. We are probably paying as much in interest annually as the national debt amounted to in 1912.

Manifestly it is apparent that the Government must raise more money even though individually we may not be in accord with all the provisions of this bill.

In 1939 we adopted legislation that requires public officials to pay income taxes on equal terms with citizens who derive their income from private sources. I would be reluctant to support this bill piling on additional taxes if public officers were to escape a part of the income taxes that are placed on the backs of the American people.

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from Wisconsin [Mr. THILL].

THE 1941 TAX BILL

Mr. THILL. Mr. Chairman, the Ways and Means Committee has worked for many weeks on the tax bill which is now presented to us. The bill has reached that stage where the committee is satisfied with it—at least the Democratic majority of the committee has approved the content of the tax bill and has reported it out. There are many elements in the bill with which I do not agree. There are many injustices which the bill does not attempt to correct. There are many hardships which the bill will impose. Yet the membership of the House is not given a fair opportunity to offer amendments for the purpose of improving H. R. 5417.

The financial condition of our country is grave because the New Deal administration for 8 long years has spent borrowed money recklessly and extravagantly. This Nation would be on a sounder and safer footing if the wanton waste of the New Dealers could have been stopped. Our national-defense effort

requires billions of dollars, and these dollars must eventually come from the taxpayers. The general objective of the tax bill in trying to bring revenues and expenditures closer together certainly has the approval of most of us. But the provisions of the bill which place undue burdens, restrictions, and hardship upon the American taxpayer cannot be too severely condemned.

For the purpose of comparing the income-tax rates in Great Britain, and the income-tax rates imposed by our Federal Government, as well as the income-tax rate in my State of Wisconsin, I asked the legislative reference service of the Library of Congress to prepare the following material:

British individual income taxes, 1940

Income tax	1940–41	Proposed, 1941–42
Exemptions (normal tax only):		
Single persons	$400	$320
Married persons	680	560
Dependents	200	200
Earned-income credit (normal tax only)	Percent [1] 16⅔	Percent [2] 10
Rate of normal tax:		
First $660	25	32½
All over $660	42½	50
Rate of surtax (on excess in each bracket):		
Up to $8,000		
$8,000 to $10,000	6¼	10
$10,000 to $12,000	7½	11¼
$12,000 to $16,000	12½	16¼
$16,000 to $20,000	17½	21¼
$20,000 to $24,000	21¼	25
$24,000 to $32,000	25	28¾
$32,000 to $40,000	31¼	35
$40,000 to $60,000	37½	41¼
$60,000 to $80,000	42½	45
$80,000 to $120,000	45	47½
Over $120,000	47½	47½

[1] Maximum £1000.
[2] Maximum $600.

Federal individual income taxes, 1940

INCOME TAX

Exemption
- Single persons $800
- Married persons 2,000
- Dependents 400

Earned-income credit: 10 percent of the earned net income but not in excess of 10 percent of the net income, but not more than $1,400.

Rate of normal tax: 4 percent.

Rate of surtax:

	Specific surtax	Excess up to—	Rate on excess
Surtax net income of—			Percent
$4,000	None	$6,000	4
$6,000	$80	8,000	6
$8,000	200	10,000	8
$10,000	360	12,000	10
$12,000	560	14,000	12
$14,000	800	16,000	15
$16,000	1,100	18,000	18
$18,000	1,460	20,000	21
$20,000	1,880	22,000	24
$22,000	2,360	26,000	27
$26,000	3,440	32,000	30
$32,000	5,240	38,000	33
$38,000	7,220	44,000	36
$44,000	9,380	50,000	40
$50,000	11,780	60,000	44
$60,000	16,180	70,000	47
$70,000	20,880	80,000	50
$80,000	25,880	90,000	53
$90,000	31,180	100,000	56
$100,000	36,780	150,000	58
$150,000	65,780	200,000	60
$200,000	95,780	250,000	62
$250,000	126,780	300,000	64
$300,000	158,780	400,000	66
$400,000	224,780	500,000	68
$500,000	292,780	750,000	70
$750,000	467,780	1,000,000	72
$1,000,000	647,780	2,000,000	73
$2,000,000	1,377,780	5,000,000	74
$5,000,000	3,597,780	(1)	75

[1] Any amount.

Defense tax: 10 percent of the tax as computed (but in such 10 percent of the tax exceeds 10 percent of net income in excess of tax, then defense tax is 10 percent of net income in excess of the tax).

Wisconsin individual income taxes, 1940

INCOME TAX

Exemptions (deduction from tax):
- Single persons $8.00
- Married persons 17.50
- Dependents 4.00

Rate of normal tax: Percent
- First $1,000 1
- $1,000 to $2,000 ..... 1¼
- $2,000 to $3,000 ..... 1½
- $3,000 to $4,000 2
- $4,000 to $5,000 ..... 2½
- $5,000 to $6,000 3
- $6,000 to $7,000 ..... 3½
- $7,000 to $8,000 4
- $8,000 to $9,000 ..... 4½
- $9,000 to $10,000 5
- $10,000 to $11,000 ..... 5½
- $11,000 to $12,000 6
- Over $12,000 7

Rate of surtax for teachers' retirement: From the normal tax as computed, deduct $37.50, and divide remainder by 6.

Rate of surtax for old-age assistance: 60 percent of the normal tax.

Total tax payable in Great Britain, United States, and Wisconsin—Married persons with no dependents, all income earned

Taxable income [1]	Great Britain		United States [2]	
	1940–41	Proposed 1941–42	Federal [2]	Wisconsin [2]
$1,000	$38.33	$110.50		
$2,000	303.83	504.50		$8.00
$5,000	1,366.33	1,854.50	$110.00	108.58
$10,000	3,620.50	4,504.50	528.00	461.92
$100,000	76,445.50	84,079.50	43,476.40	11,547.75
$400,000	346,445.50	376,579.50	255,391.60	48,647.75
$1,000,000	882,995.50	961,579.50	717,583.60	122,847.75
$5,000,000	4,482,995.50	4,861,579.50	3,916,547.60	617,514.42

[1] After all deductions, except personal.
[2] It should be noted that the Federal and Wisconsin taxes payable on any given amount cannot be added together and the result said to be the burden for that particular income, since taxes paid to the one jurisdiction in 1940 were deductible in computing the 1940 taxable income of the other.

Collections from British taxes based on income

	Year ending Mar. 31, 1940	Year ending Mar. 31, 1941
Income tax	£390,083,000	£523,949,000
Surtax	£69,780,000	£76,107,000
Total	£459,863,000	£600,056,000
Conversion (£=$4)	$1,839,452,000	$2,400,224,000
Per capita	$38.73	$50.54
Per capita national income (1940)	$445.00	$445.00
Percentage income taxes is to national income	8.7	11.3

Sources: Economist, Apr. 5, 1941, p. 468; Conference Board Economic Record, May 24, 1941, p. 215.

Net income-tax collections in Wisconsin, 1940

	On individuals	On Corporations	Total
Federal income tax	$11,823,984.05	$17,694,445.95	$29,518,430
Wisconsin income tax	8,532,000.00	9,148,000.00	17,680,000
Total	20,355,984.05	26,842,445.95	47,198,430
Per capita income tax	$6.49	$8.55	$15.04
Per capita national income in Wisconsin	$561.26	$561.26	$561.26
Percentage that income taxes is to national income in Wisconsin	1.16	1.52	2.68

Sources: Annual Report of the Commissioner of Internal Revenue, 1940, p. 53; Bureau of the Census, State Tax Collections: 1940, p. 12; Conference Board Economic Record, March 24, 1941, p. 121.

The United States laws permit certain deductions against income before the tax is computed. The law in Great Britain, according to the information I have received, allows no similar deductions.

Principal deductions allowed individuals under the income-tax laws of the United States and Wisconsin

[1940 incomes]

Item	United States law	Wisconsin law
Interest	Allowed	Allowed, except that paid on indebtedness created to conduct business outside Wisconsin, or to acquire or maintain property outside Wisconsin.
Taxes	Allowed, except Federal income, Federal war-profits, and Federal excess profits taxes, and all estate, inheritance, legacy, succession, or gift taxes, or special assessments.	Allowed for Federal taxes on income taxable under Wisconsin income-tax law, all taxes on rented property and property used in business or profession. No deduction is allowed for inheritance taxes or special assessments or taxes on residences occupied by the owner, or on vacant lots or property not yielding taxable income.
Charitable contributions.	Allowed up to 15 percent of net income.	Allowed (if for use within the State) up to 10 percent of net income.

DEDUCTION FOR PREMIUMS PAID ON LIFE-INSURANCE POLICIES UNDER BRITISH INCOME TAX

Life-insurance premiums are not deducted for calculating the taxable income, but tax on them is allowed as a deduction from the tax payable.

The deduction allowed is as follows:

(1) On premiums paid during the tax year, but not to exceed tax on—

(a) One-sixth of total income. Nor on—

(b) Seven percent of capital sum insured at death (exclusive of bonus additions) and £100 in all in respect of payments for other benefits.

(2) "As regards insurances or contracts for deferred annuities made after June 22, 1916"—

(a) Only given on policies insuring capital sum at death.

(b) No deduction during period of deferment on deferred policies.

(3) Where contract made on or after June 22, 1916, and total income [1]—

	Rate in £ on premium paid
Does not exceed £1,000	3s. 9d. (½ rate)
Is between £1,000 and £2,000	5s. 7½d. (¾ rate)
Exceeds £2,000	7s. 6d. (full rate)

For 1940–41 the minimum rate of relief is 3s. 9d.

The allowance includes all premiums whether annual or not (or paid by a wife, on her husband's life, out of her separate income), also compulsory deductions from salary for deferred annuity to widows or provisions for orphans.

Premiums are allowed only so far as paid in cash.

Sources: Income Tax Act, 1918, section 32 (3), as amended, and Finance (No. 2) Act, 1939, section 9 (1); Taxation, Key to Income Tax and Surtax, Budget edition, 1940–41; Tolley's Complete Income Tax, Surtax, etc., Chart-Manual (24th ed., 1939–40); Sharles, F. F. (and others). Income Tax Law Practice and Administration, Service Supplement No. 14 (issued July 1940).

[1] "Total income" is the statutory income from all sources, earned and unearned, less allowable charges on income (ground rent, mortgage interest, etc.), and amounts on which tax has been successfully reclaimed (bank interest, farm and business losses, repairs to property, etc.).

The picture of increased taxes is a sad picture which Americans must face. But we would gladly pay all taxes necessary to provide for adequate national defense if we could be sure that waste and corruption would be held to a minimum. There should be a drastic reduction in unnecessary civil outlays and economy should be practiced wherever possible. Nondefense spending should be curtailed and every dollar should be spent in such a way that we get full value for what we buy. Economy and thrift should be our watchwords.

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from Wisconsin [Mr. SAUTHOFF].

Mr. SAUTHOFF. Mr. Chairman, I have no enthusiasm over the present tax measure, but shall vote for it for two reasons. One is that the country needs the revenue and needs it now, and the other is that I know, from past experience, that the Finance Committee of the Senate will make many changes in this bill. If we vote down the revenue bill for 1941, and the Ways and Means Committee must again go into session to produce a new measure, it will be some time in September or October before the new measure will be produced. Then, if the Senate takes several months for the consideration of the bill, it will not pass until the end of the year, and while its provisions will go back to January 1, 1941, as regards other taxes in the bill, nevertheless excise taxes will be lost, and our need for them is very great.

I cannot condemn too strongly the rule under which this bill is brought before us. This rule precludes every Member of the House from offering any amendment. Only one amendment is permitted to the bill, and it is no compliment to the Rules Committee or to the Ways and Means Committee that that particular section relates to only about 5 percent of the people, and that 5 percent belonging to the wealthy classes. Why so much agitation and concern over a group that is always well able to take care of itself? I am referring to the joint tax returns of husband and wife. Personally I do not find in the arguments that have been made to date any reason for not having such a provision in the bill.

May I point out to you that the farmers of this country are ably assisted by their wives in the management and conduct of their farms; that women on the farms do a great share of the work, and in many instances the women make the butter and sell it and retain the butter money. Likewise, they look after the chickens and have the income from the eggs and such chickens as they may sell on the market from time to time. I have known instances where farmers' wives have bred canaries, made hooked rugs, and have assisted in the family income in various other ways. No one has ever brought out a special rule to have the income of the farmer's wife filed under a separate return. It has always been included in the income of the farmer.

Now, let me point out another instance. In many cases in the cities where a man has a white-collar job that does not pay a salary large enough so that he may educate his children as he would like to do the wife helps out with the family income by taking in a couple of roomers. She does the work in the care of those rooms, and yet when the tax return is filed by the father of that family there is a provision in it for the added income from rent from rooms.

If the principle is correct in respect to the farmer and the worker of low income in the city and their wives, why is not it applicable with equal force to a wife who may have inherited a million dollars and never turned a hand to produce any of the income, but received it as her right as the result of inheritance? The same applies to stocks and bonds. I think if anyone would be entitled to the filing of a separate return, it would be those women who, through their own initiative and energies, built up a business and had a substantial income from their efforts. Such an argument might apply with some force to the farmer's wife, to the city man's wife, and to all women who might have a separate business or a separate profession, but I cannot see either a moral or a legal argument that because the joint income would be in a larger bracket, therefore it should be exempt from a joint return and each should be permitted to file a separate return.

There are inequalities in this bill that I do not like. Some of them I suggested to the Ways and Means Committee at the time of the hearings on this bill. I can see no justification, for instance, in taxing billboards, which is one type of publicity agency, and at the same time granting a subsidy to newspapers, which is another type of publicity agency. Furthermore, I agree with the editorial in Labor of the issue of Tuesday, August 5, in which it says:

> While the taxes of corporations are increased about 35 percent, the taxes of individuals are hiked an average of 75 percent. The largest percentage increases are in small incomes, running up to 250 percent.

And it adds:

> Before it begins paying surtaxes, a corporation must have profits in excess of its average profits during the best 2 years between 1936 and 1939. If it is more advantageous to the corporation, it may forget about "average profits" and claim an exemption of 9 percent on its capitalization, including stocks, bonds, debts, "water," and what have you. Under this provision, Treasury officials contend, scores of corporations making "fantastic profits" on defense contracts will entirely escape payment of surtaxes. The individual taxpayer, however, is required to pay surtaxes on every dollar of his income, whether it is the same or smaller than last year.

The American Federationist, which is the official magazine of the American Federation of Labor and is edited by William Green, its president, in its July issue of 1941 on page 18 has a well written article entitled "Defense Profits Are Enormous." I am taking the liberty of quoting a few excerpts from this splendid article. These excerpts I think need no explanation:

> In the first quarter of 1941 (latest figures) we find that 295 leading manufacturing corporations earned an average of 12½ percent on invested capital (annual rate), even after laying aside tremendous reserves for taxes. Clearly, business as a whole is not doing badly.
>
> Profits in 1940 averaged 32 percent on capital for the 10 leading (airplane) companies, and the 1941 outlook is for still higher profits, even after a liberal allowance for increased taxes.
>
> These 10 companies manufacture more than nine-tenths of the country's airplane output; their combined income, after taxes in 1940, was $65,000,000 on a combined capital of $204,380,000.
>
> Applying our yardstick for excess profits to each company separately, we find that the industry in 1940 earned $49,000,000 in excess profits, or $544 per worker.
>
> In 1940 Alcoa's (aluminum) net income was $44,146,000 on a net worth of $206,176,000, or a profit of 21 percent. And its 1941 profits, even with higher taxes and a slight boost in wages, will probably equal 1940's. The company's excess profits (over 8 percent) last year were nearly $28,000,000.

I should also like to point out that in the President's message of July 30 he refers to the fact that the cost of living is constantly increasing. The Bureau of Labor Statistics on 28 basic commodities stated that by the end of June this index had advanced 50 percent beyond its August 1939 level and furthermore that it has increased 24 percent since January of this year.

> In the past 60 days wholesale prices have risen more than five times as fast as during the preceding period since the outbreak of the war abroad. In a single month from the middle of May to the middle of June the cost of living jumped 2 percent.

In the light of these facts the 250 percent increase on individual incomes must have added to it the increased cost of living on these wage earners which is a substantial tax on everyone's income. To the person of fixed salary, especially a man with several children, who is making monthly payments on a home, who is trying to keep up his insurance, who is endeavoring to give his children an education, the increased cost of living makes a marked inroad on his income which, added to his increased tax burden, will make it very difficult for him to keep up his obligations and at the same time try to do something for his family.

I might also add that I do not agree with the taxes relating to radio broadcasting stations. I think it would be better to start the taxes on gross contracts at $50,000 and from then on have a graduated increase. This would be more equitable when compared with the increase of 250 percent on the individual taxpayer who also has to meet the increased cost of living.

I trust that the Senate Finance Committee will iron out some of these inequalities when it is considering this bill and that next year when the new tax bill comes in and a much clearer picture will be had of the situation than we have now, inequalities will be hard to find.

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from Nebraska [Mr. CURTIS].

Mr. CURTIS. Mr. Chairman, I think that it is appropriate while we are considering this 1941 Revenue Act that we turn our attention to the more abundant life. I have chosen to speak on that subject.

I think that it is apropos that we keep in mind that the New Deal came into

power in 1932 in the interests of the "forgotten man" and to bring about a new social order, a new day—a new day where the Federal Government would remove all of the harshness and cruelty from life and provide the more abundant life.

It is the duty of this Congress to let the people of the United States know why this tax bill is necessary. Some will say that it is necessary in order that we may prepare to defend ourselves. It is true that national defense costs a lot of money. But this tax bill here before us today is here not because of our present defense program but because of the efforts of our Federal Government to spend this country into prosperity. It is part of the price that we are paying for the experimenters that attempt to legislate a Utopia.

In 1933 the public debt was $22,538,672. The total public debt today is estimated at various amounts. I charge that it amounts to $60,931,479,589.

Here is my tabulation of that figure:

Stated debt of July 25, 1941	$49,378,345,589
Estimated deficit for current year	10,900,000,000
Treasury currency obligation	3,134,000
United States Housing, direct obligations	650,000,000
Total	60,931,479,589

Some accountants include in addition to the above $20,664,000,000 for our gold deposits, for which they contend that the United States has never made a lawful payment. If this is included, it is $81,595,479,589.

Today, in the enactment of this tax measure, we are commencing to pay the piper. Today America faces the task of an extensive rearmament program with an empty till. The New Deal Party has increased our national debt to such a point that we cannot go on at the present rate. They have robbed every till and all funds that they could get their hands on. The result is that this tax bill is necessary. But its pressing necessity lies in the past conduct of the Federal Government and not because of the defense program.

Now, I am not one of those people who contend that all of the spending by the New Deal Party has been for naught. They have had sound businessmen and honest people in charge of some things. They have built some good projects, and I am especially in favor of those projects that conserve and help to develop the natural resources of our country.

But the fact that some good has been done is no justification for waste, extravagance, and corruption.

I would like to see an inventory of the earnings of the Democratic national committeemen of the 48 States during the lifetime of the New Deal. Oh, yes; when the people commence to pay the taxes under this bill they should do so with the knowledge that some of that money is needed to pay for the huge cut to the national committeemen and other New Deal bosses for boondoggling and other of their favorite indoor sports.

It is not America's Army that receive their $21 a month that makes this tax bill necessary. Since 1933 there have been more regulators, inspectors, and supervisors going up and down the country regulating the private lives of individuals than at any time in the history of our country. They have driven big cars; they have stayed at the best hotels; and they have had a retinue of stenographers and clerks. All of these things cost money. That is one of the reasons why this tax bill is here today.

Oh, yes; the New Deal has provided the more abundant life, not for the forgotten man but for the New Dealers themselves. America may not have been ruled so well during these last few years, but they have had plenty of rulers. There is one thing about this more abundant life for new dealers; it takes in the whole family. Wherever you find a prominent New Deal politician on the Government pay roll, the chances are that you will find that all of his relatives, his children, his nephews and nieces, his mother-in-law, his cousins to the "*n*th" degree, and all of the rest of them, have Government jobs, too. All of this costs money, and that is another reason for this tax bill. This is a tax bill to provide the more abundant life for those who can get it.

Under the New Deal they have spent $530,784 for the Treasury relief art project. We have hired 328 artists. With this same expenditure, we could have built 12 pursuit planes or 50 heavy Army trucks to rush up troops against a possible invader. The P. W. A. alone have spent approximately a million dollars for window shades and related fixtures. This money could have provided us with 10 attack bombing planes.

However, the more abundant life has been supplied in certain instances. The good people of Somerville, Mass., when they go to the post office to get a notice that they must pay their Federal taxes, will have an opportunity to look upon a $2,000 mural in the lobby of that post office. They can take another look when they mail their checks. It may be a fine picture, but the Army could have bought 20 new semiautomatic rifles with that $2,000. If it is the function of the Federal Government to place a $2,000 painting in the post office at Somerville, Mass., then is it the function of the Federal Government to spend a like amount for a painting in every post office in the United States? Should they all be treated alike? Or if it is argued that this was done because some artists were out of employment, then perhaps a gymnasium should be added to the post office in my home town, because there are some carpenters there who are out of employment. Surely we have gone far afield from the authority granted in the Constitution for the Congress "to establish post offices and post roads."

From July 1933 to March 1939 the P. W. A. spent $715,072 for theatrical scenery and stage equipment. This amount of money would have purchased over 7,000 new semiautomatic Garand rifles.

Mr. Chairman, when we view the fiscal policy of the New Deal administration, we realize the great truth of the old fable of the grasshopper and the ant. While the ant worked all summer, the playboy grasshopper whiled away his hours, but the day of reckoning came. It seems to me that such a day is not far distant for our country.

There is not an individual in all the land who will escape the effects of this tax bill. It is true that the great majority of the people will not make a direct tax return to the Federal Government. This tax bill will be paid by the common people, or by the poor people. They will pay it every time they buy something. If there is anyone here who thinks that you can tax a telephone and telegraph company without having that tax added onto the bills of the users of those utilities, or who thinks that we can tax the railroad companies without increasing freight rates, thus raising the prices of everything that we buy, they are indeed optimists. This tax bill is not a burden on only a few people in the United States, it is a burden on the rank and file of the people. Business must pass taxes on to the next fellow. If it did not, it could not exist, for if it loses only 1 percent a month in 100 months, it would be gone. That is simple arithmetic.

There is not much satisfaction in the thought of the new dealers, "we planned it that way."

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from Nebraska [Mr. STEFAN].

Mr. STEFAN. Mr. Chairman, since 1933 the Congress has enacted 13 tax measures. The bill under consideration will be the fourteenth. It will be the third revenue measure enacted since 1940 when we embarked upon our preparedness program. The measure now being considered is of greater significance and importance, however, than all those which have preceded it. To borrow the language used by the majority of the Ways and Means Committee in its report, the bill is unprecedented. It will yield an unprecedented sum and it will impose a substantially increased burden upon the American people. I doubt if there is anyone in the country who will escape its impact either directly or indirectly. What is more the taxes that are to be increased and the taxes that are to be imposed for the first time are a promise of still more to come. The bill also constitutes a first attempt to formulate a tax policy for national preparedness.

In view of the bill's importance, it is imperative that the citizens of the country understand its provisions. They should know not only its major details, but its aims, its merits, and its faults as well. One should study its effects upon the fiscal policy of the Federal Government, its effects upon those who will bear its burdens, and its effects upon the national economy as a whole.

FISCAL ASPECTS OF THE TAX BILL

Total Federal expenditures for the fiscal year ending June 30, 1942, are now estimated at $22,000,000,000. According to Secretary of the Treasury Morgenthau, if we are to follow sound financial procedure, two-thirds of this amount, or $14,700,000,000 should be raised by taxes. This would leave $7,300,000,000 to be raised by borrowing or by increasing the national debt.

Federal revenues, according to latest estimates of the Bureau of the Budget,

fall far short of the amount designated by Secretary Morgenthau as desirable. Total Federal receipts for the fiscal year ending June 30, 1942, will be about $9,200,000,000, or $5,500,000,000 less than the necessary two-thirds.

A major purpose of the revenue bill of 1941 is to increase tax yields so we can finance a greater part of our current expenditures out of current receipts. The measure does not, however, provide sufficient revenue to meet Secretary Morgenthau's standard. According to estimates outlined in the report of the majority members of the Ways and Means Committee the bill will yield only $1,900,000,000 during the current fiscal year. Thus total Federal revenues for the fiscal year 1942 will be about $3,600,000,000 less than called for by the two-thirds rule.

Nor will the situation in this respect be greatly changed when the increases imposed by this bill are in effect for a full fiscal year. According to the committee's estimate the bill is designed to yield an excess of $3,500,000,000 for a full year of operation. Thus if the bill had been in effect for the entire 12 months of the current fiscal year, and if other things remained equal, the bill would fail to reach the revenue requirements imposed by the two-thirds rule by about $2,000,000,000. In this connection, one must note that Federal expenditures will no doubt be far in excess of the $22,000,000,000 to be spent, according to the latest estimates, during the fiscal year 1942. At the same time it is doubtful if Federal revenue will keep pace with rising expenditures in the years to come, even if one assumes there will be a material increase in national income and in tax revenues from the new rates. Therefore, it is quite likely that in the next few years we will be as far away from meeting the requirements of the two-thirds rule as we are now, if not further. Worthy of note in this connection is the persistent tendency of the administration to underestimate the costs involved in building our national preparedness. This tendency has made it quite impossible to develop a sound fiscal policy for national preparedness. As the gentleman from Pennsylvania [Mr. DITTER] observed in his remarks in the RECORD for July 3, 1941:

> I understand that a committee of this body is now considering a revenue bill that it is hoped will yield $3,500,000,000 in added taxes. If this bill should be passed and if it yields this estimated revenue, the deficit will be reduced unless estimated expenditures continue to rise. From our experience gained under the Budget for 1941 and with the actual expenditures for that year, one should not be surprised if expenditures increase in 1942 if it is physically possible for the New Deal to attain such an end.

No advantage will be gained by trying to dodge the fiscal implications of these solemn facts. Either taxes must be increased further in the near future or we must rely to a greater extent upon Federal borrowing. This latter would mean abandoning the two-thirds rule suggested by Secretary Morgenthau. If we choose this course, then we have removed what could have been an effective control over the rate of increase in the public debt. If we do this we might run the risk of reducing faith in the public credit, for it will tend to imply that we are not much concerned over sound fiscal policy at a time when we will be seeking billions of borrowed dollars. Relative to the future trend in the size of the public debt, the minority members of the Ways and Means Committee observed:

> This year, Congress was obliged to increase the (debt) limit to $65,000,000,000 so that the Treasury could continue to meet the Government's obligations, both civil and military. It now appears that the $65,000,000,000 limit will be reached next year, and it is probable that before the present emergency is over the national debt may easily go to $100,000,000,000. Even this figure, which is nearly equal of the assessed value of all real estate in the United States, may be all too conservative. (Supplemental Views of the Republican Minority, Report on the Revenue Bill of 1941, p. 72.)

The majority members of the Ways and Means Committee observed in their report that "During the World War only one-third of the expenditures were met by taxes and two-thirds by borrowing." These members of the majority failed, however, to call attention to the evil consequences that befell that policy. That policy was responsible to a great extent for World War inflation, the burdensome increase in the cost of living and for inflation's aftermath, the culmination of which was the world depression of 1929.

THE TAXPAYER'S BURDEN

Although the measure does not provide sufficient revenues for two-thirds of our total Federal expenditures, it does nevertheless impose a substantial burden upon the taxpayer over and above his present load. Of the more than $3,500,000,000 to be raised by the bill in a full year of operation, $1,152,000,000 is to be derived from individual income taxpayers. The effective date of the tax bill as it relates to income taxpayers is January 1, 1941. Thus individual income taxpayers will be required to pay the increased rates on income received during the full calendar year January 1, 1941, to December 31, 1941.

From the standpoint of the individual taxpayer, the greatest change in the bill relates to surtax rates. Whereas no change is made in the individual normal tax rate of 4 percent surtax rates are increased substantially. Surtaxes now will start at 5 percent on the first dollar of surtax net income and range upward to 75 percent on surtax net incomes of $5,000,000, and over.

It is this provision of the bill that will greatly increase the amount of taxes to be paid by the majority of individuals on income earned during the current calendar year. Thus a single person with a net earned income of $1,000 will pay $15.40 compared with $4.40 as at present; a single person with a net earned income of $3,000 will pay $211.20 compared with $83.60 as at present; and a single person with a net earned income of $5,000 will pay $473 compared with $171.60 as at present. A married person, but with no dependents, with a net earned income of $2,500 will pay $38.50 under the proposed bill compared with $11 as at present; and a similar person with a net earned income of $5,000 will pay $308 compared with $110 as at present. A married person with two dependents will not pay any income tax under the proposed bill, however, unless his net earned income approaches $3,000; and a married person with four dependents will not be affected by this provision of the tax bill unless his net earned income approaches $4,000. A married person with four dependents will pay on a net earned income of $5,000, $116.60 under the proposed bill compared with only $39.60 as at present.

Perhaps the second major change provided for in this bill as it relates to individual income-tax payers is the provision making it mandatory for husbands and wives with separate incomes to file joint returns. Thus, the bill as reported requires husband and wife living together to report their income in a single joint return and to compute the tax on their aggregate income. Under the present system of separate returns a husband with a net earned income of $2,500 and a wife with the same amount of income would pay $275 taxes. Under the joint return system they would pay $308. Under the present system of separate returns a husband and wife with a net earned income of $5,000 each would pay $880 in taxes, compared with $1,166 under the system of joint returns.

Another change of interest to individual income-tax payers relates to the 10 percent defense tax which was imposed by the First Revenue Act of 1940. This tax, originally imposed for 5 years, will be made a permanent feature of our tax system by the revenue bill of 1941. Also of interest to the individual taxpayer is the fact that income-tax exemptions remain the same as last year; that is, $800 for a single person and $2,000 for a married couple. The present exemptions on a weekly basis are $15 for a single person and $38 for a married person. Individual taxpayers will also be vitally affected by the increases in existing excise taxes and in the added excise levies. These excise taxes are expected to yield about $900,000,000 in revenue during a full year of operation. I will discuss these at some length shortly.

BUSINESS AND THE REVENUE BILL OF 1941

The measure will also affect every business organization in the country, large and small. Of the $2,475,000,000 to be derived from income taxes, $1,323,000,000, or 53 percent, is to be obtained from increased corporate taxes. Business will be affected by an increase in corporate surtaxes, by an increase in the excess-profits tax, and by the various excise taxes. Although the bill makes the defense tax permanent, it does not change the corporation normal tax rate. A change is made, however, in the normal tax base, the excess-profits tax being allowed as a deduction from gross income in arriving at net income subject to normal tax.

Changes in the corporate surtax rates are expected to yield $645,000,000 in a year of full operation. The bill imposes upon corporations a surtax of 5 percent on the first $25,000 of surtax net income and 6 percent on the remainder. Changes in the excess-profits tax are designed to yield an additional $1,198,000,000 in a year of full operation. This

tax will be stiffened by lowering exemptions and by increasing the existing rates by 10 percentage points in each bracket. For example, at present the rate on an adjusted excess-profits net income up to $20,000 is 25 percent. The new bill will increase this rate to 35 percent. Rates instead of running from 25 percent to 50 percent as at present will run from 35 percent to 60 percent. Important changes have also been made in the methods of computing taxable income. Corporations, however, will still be allowed to measure excess profits by either the average earnings or invested-capital methods.

EXCISE TAXES

Increases in existing excise taxes and the imposition of new excise taxes will vitally affect both individuals and business concerns. These taxes will affect virtually every person in the country. They are designed to yield $900,000,000 in a full year of operation. They include manufacturers' and retailers' excise taxes on distilled spirits; wines; passenger automobiles; automobile parts and accessories; automobile trucks, busses, and trailers; tires and tubes; refrigerators and air conditioners; matches; playing cards; radio receiving sets and parts; phonographs and phonograph records; musical instruments; sporting goods; luggage; electrical appliances; photograph apparatus; electric signs; business and store machines; rubber articles; commercial washing machines; soft drinks; jewelry; furs and toilet preparations. These excise taxes also include such miscellaneous taxes as on admissions; bills incurred at cabarets and night clubs; club dues; safe-deposit boxes; telephone, telegraph, radio, and cable facilities; telephone bills; transportation, such as on a railroad fare; a "use" tax on motor vehicles and boats; taxes on bowling alleys and billiard and pool tables; taxes on coin-operated amusement and gaming devices; taxes on radio broadcasting time sales; and on outdoor advertising. Many of these taxes will fall upon individuals not reached by the income tax.

OTHER MAJOR CHANGES

The tax bill will also increase the capital-stock taxes, the estate taxes, and the gift taxes. These increases in rates are expected to yield $174,000,000 in revenue during a full year of operation. The bill increases the capital-stock tax rate from $1.10—$1 plus 10 cents defense tax—per $1,000 of adjusted declared value to $1.25, effective for the fiscal year ending June 30, 1941. The bill also provides a new schedule of increased rates for the estate tax, applicable only to the estates of decedents dying after the enactment of this bill. In addition, the 10-percent defense tax is made permanent. No other change is made with respect to the estate tax. In addition the bill provides a new schedule of increased gift-tax rates applicable to the calendar year 1942 and subsequent calendar years. As under existing law, the new gift-tax rates are in each case three-fourths of the corresponding estate-tax rate. No other change is made with respect to the gift tax.

THE EFFECT OF THE BILL ON THE NATIONAL ECONOMY

The measure is also of great importance viewed from the standpoint of the national economy as a whole. I have already pointed cut that it will not raise sufficient revenue to pay for two-thirds of our expenditures. Nor can it be said as the majority members of the Ways and Means Committee seem to imply in their report, that the measure will prevent inflation. During wartime, or during a time such as this, a tax bill is normally expected to drain off excessive purchasing power so that prices can be more easily controlled. This tax measure however, does not accomplish that end and since it does not, we have complicated to that extent any attempt that might be made in the future to control prices or the cost of living. Since the bill will not prevent inflation, many people will be cut with a two-edged sword, for they will confront higher taxes at the same time when rising prices are materially reducing their real income. What is more, since the bill fails to approach realistically the fiscal problems of the Nation, it cannot be said that this bill will facilitate mobilization of our national resources for defense. Many changes will have to be made in our tax program before it can be said that we have created a sound tax defense policy.

A detailed examination of the fiscal position of the Federal Government leads to the conclusions that we are facing a perilous situation, indeed. We have had deficit after deficit, year after year, and during the present fiscal year the gap between expenditures and receipts will be approximately $11,000,000,000, even if one includes the increased revenue to be yielded by this bill during the current fiscal year. If we are to pursue a course of sound fiscal policy, it is absolutely imperative that the gap between expenditures and receipts be narrowed materially. This bill will do part of that job; more, however, remains to be done, and there is much that we can do immediately. The old saying "penny saved is a penny earned" applies to the realm of fiscal affairs as well as to an individual's personal finance. We can save money and help narrow the gap between expenditures and receipts by eliminating every dollar of needless expenditure and administering the national-defense program with the greatest amount of efficiency and with the least possible cost. As the minority members of the Committee on Ways and Means observed in their excellent report:

> If the Government is going "all out" for national defense and "all out" for taxes upon the people, it is compelled both by necessity and by a regard for its obligation to the taxpayers of the country to also go "all out" for economy.

There is universal agreement that much is to be gained at this time by a rigid policy of governmental economy. The Secretary of the Treasury in his appearance before the Ways and Means Committee states that in his opinion nondefense expenditures could be reduced to the extent of at least $1,000,000,000. This is the opinion of the man who is directly responsible to the President for the fiscal affairs of the Government. If he says it can be done, it can be done; but it cannot be done unless the President is willing that it shall be done. Not until he so decides will any progress be made in this direction.

Considerable evidence is also at hand indicating that great savings can be accomplished in our defense program. According to an investigation conducted by one of our colleagues in the House, at least $250,000,000 of the $800,000,000 appropriated for the construction of Army cantonments was wasted. Therefore, it is imperative that defense expenditures as well as nondefense expenditures should be studied in great detail so that every dollar of unnecessary spending can be eliminated. If this is done, the administration need never fear that the people of this country will ever question the credit of the Federal Government.

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from California [Mr. LELAND M. FORD].

Mr. LELAND M. FORD. Mr. Chairman, I rise to make a few remarks on this tax bill.

I have noted in the papers recently that this bill has been termed "an unprecedented tax burden." Unfortunately, this is true; but also, unfortunately, this is only a small part of what the people in our country may expect, as there is much more to come.

If the wasteful, destructive expenditures of this Government continue—and I do not mean national defense by this, but I mean those expenditures that are not for national defense but which have been slipped in, in this time of confusion, disorganization, and emergency, which I am sorry to say exists—the tax bill of this country is going to confiscate all business, industry, all the earnings of labor, and all the earnings of our public.

This is an unprecedented tax bill, and much of this money that our people are going to be called on to pay in not only this but in future tax bills, in my opinion, should have been entirely unnecessary, because many billions have been wasted, thrown away, and, so far as any tangible assets are concerned, those billions have been destroyed and lost.

Many times have I arisen to address the House and cautioned this body that there would be a day of reckoning. This day of reckoning is now beginning to catch up with us, and the bills are now coming home to roost. There is a limit to the number of days of spending that one can continue, and finally there must be a day of paying. Most of our taxpayers were unaware or did not realize what these wasted billions would finally cost them and do to them. Now, when they get this tax bill and others that will increase their taxes 2 times, 4 times, 6 times, 8 times, and perhaps 10 times, they will then begin to realize that some of the things that were told them by many of us about their Government are true.

In past years a penalty has been placed on saving, a premium was placed on spending. Many of the principles that this country has held dear and have

proven to be right were set aside. A new group of theorists arrived, who never had made a dollar of their own, never had any real business experience or met a pay roll, and said this was old-fashioned, that they had new ideas, that they could overturn the old laws of economics and finance. While they were pleasantly spending and bribing the public to sleep, people did not think very deeply or look very far into the future, with the result that today the day of reckoning is here for the taxpayer, who now must consider the billions that have been wasted and misspent. This is usual during the pleasant spending spree, but when the soberness of realization returns, when it is time to pay the bills, the people of this Nation must finally wake up.

It is said that this tax bill is to finance the defense program. Let me say right here that no American, including myself, would ever deny an appropriation to give us a proper defense program in all its ramifications. We must do that in order to protect this country.

It may be said that this is to finance the defense program. I am going to tell you that if we had back in our Treasury some of those wasted billions, we might have used some of those billions to finance this defense program and not now have to tax our people so heavily.

This bill does not come anywhere near financing our program, as it only calls for an increase of three and one-half billion dollars, while on last Monday, alone, this Congress spent eight billion. Again, the national debt has moved up from approximately twenty-five billion to somewhere around fifty or fifty-five billion now. Is it unpatriotic or treasonable to ask to know what became of the difference of some thirty-odd billions of dollars? The day of reckoning should not only be here, but the day of accounting for past performances or stewardship should be here also.

It is stated in the press that it was thought that this burden would be borne cheerfully. I believe this statement would be true if people had full confidence that the money that was called for, all went into actual national defense, and if the items that were not for actual national defense, but were camouflaged as such, could be cut out and the money could be spent efficiently for national defense. As an instance of the efficiency of this program—and I do not think it is unpatriotic to try to conserve our national credit and save our money—I will quote you from the report of the gentleman from Michigan, ALBERT ENGEL, wherein he reported that in the last war it cost two hundred and six million to house 4,000,000 men. After all the confusion of war expenditures was over and sober sense again attended our people, a congressional report was made saying that out of that two hundred and six million, seventy-eight million was wasted or misspent. Now, let us compare the record of this new war preparation.

In round figures, eight hundred million has been called for so far to house not 4,000,000 men but only 1,400,000, and in Mr. ENGEL'S opinion at least $250,000,000 of this is being wasted and misspent.

Now, compare these figures, and after that is done, I wonder if our people, when they know that our money is being wasted and misspent by the hundreds of millions, will bear that cheerfully. This is only one example. Many others could be given. People might bear this more cheerfully if the general scheme was more equitable.

I see no reason why every person in the United States should not bear his proportion of the tax burden. Each shares in all of the good things and benefits of government, and I believe, therefore, that each should share in the responsibility for the payment for government. If his tax bill were only 1 cent a year, I believe he should pay it, in order that we may not create two classes in this country, one class which pays all the bills, and the other class which receives all the benefits. In practice it will be found that the class receiving all the benefits but not paying the bill is the one that is always clamoring and screaming for more expenditures. Perhaps if this group had to pay for some of the things they have asked for, they would then become tax-cost conscious. Up to a short time ago we never knew what classes were, but, unfortunately, there has been an effort on the part of some people to name and create classes. This is an extremely dangerous thing to do, because, in my opinion, the government in power, by subsidizing these classes, which actually amounts to bribery, will always be able to vote them in their favor, which finally will lead to corruption and destruction of not only the Government but these very classes themselves.

It was said that this bill would be borne cheerfully. So far as I am concerned, I have not run across anybody who was cheerful about this, but had they used the word "fearfully," I would have agreed with them. Many people see the socialization of America coming as a result of this. I think the great bulk of our people are not cheerful about the great subsidy that has been passed to the subversive, communistic, socialistic, racketeering C. I. O. leaders. Particularly, they are not cheerful about handing these billions over to this group, when at the same time their sons have been drafted into the Army, where the lives of these men may be taken, and have been given $21 a month. This is not equitable. Neither are our people cheerful or happy when they find that strikes headed by this group have cost 2,500,000 days in our defense program. Neither are our people happy or cheerful when everyone is asked to make a sacrifice for the defense program, but find this subversive, communistic group demanding their pound of flesh in money, closing up the plants, and refusing to put the arms and implements into the hands of the young patriotic manhood of this country, who have submitted to the draft and are willing to defend the country with their lives.

When the full story is written, Madam Perkins and Bridges, whom she has protected, Hillman, Murray, and Lewis, and the others are going to have something to answer for. You have never heard any of these people, who are in a position to do so, ask the C. I. O. racketeering, communistic leadership to modify their demands and make any sacrifices for the country; just the reverse. They want to expend every dollar and give every dollar to those men that they can, and whenever they do that they are weakening our finances, which in turn weakens and destroys our defense program.

The strongest defense of this country is its strong national credit, which should be protected against any individual, whether he comes from business or industry or labor, for after all, armies and navies these days travel on bank accounts.

I believe our people would be much more cheerful over this if they knew we were getting value received, and if they knew that the money was not being wasted. My suggestion, therefore, is to cut out the unreasonable, undesirable, unnecessary expenditures and the socialistic encroachments upon the functions of our Government.

It is said, this year, that six billions which were not national-defense items were included in the appropriation. Why?

This Government has become extremely complicated and extremely expensive and far more socialistic than our people realize. The statistics of the costs I have heretofore placed in this RECORD. I note now that a movement is on foot to take many of the bureaus out of Washington. So far as I can see, I think it would be a fine thing for every citizen of the United States if many of these bureaus were not only taken out of Washington, but were taken out of the Government itself. This does not apply to the War Department, which we all agree is a necessary Department, and particularly at this time.

The importance of national defense to continue freedom and security was mentioned. Let us look this over carefully. Do our people not realize that continued freedom and security can be lost in two ways? Most people have lost sight of this in this confusion. One way, of course, is to lose it through defeat as the result of war. We are now preparing against this and are trying to muddle through to a national-defense program. Mr. Knudsen, if let alone and if given proper power, would be able to do this, but unfortunately a man like Hillman, representing the C. I. O., has acted as a dagger at his heart so far as the defense program is concerned, but, nevertheless, we are trying to muddle through, and I mean muddle. That statement goes unless there is a change in the program calling for real efficiency and organization.

The second way our freedom and security might be lost is through the wreckage and destruction of the credit of this Government, the wasting of its money, which will finally bring socialism in one of its degrees—straight socialism, nazi-ism, fascism, or communism. What is the use of talking about continued freedom and security if we are going down the road straight to destruction by wasting our money and throwing away our credit? Cannot you see what will happen to this country under these conditions? If you cannot, I draw your attention to the nations of Europe who did the same thing and tried to

spend themselves back to prosperity. They spent themselves into ruin and destruction of all freedom and all security.

Unless a change occurs, it is quite possible for us to lose our American form of government and have it supplanted by socialism or one of its isms. Many people might be constrained to discount this statement as a radical one. But let us check up and see, by the actual facts and actions that have occurred here in Washington in the last year.

First. When the bill to deport Harry Bridges was overwhelmingly carried in the House, it was blocked and stopped and never became a law.

Second. When the Smith amendments to the N. L. R. B. were passed overwhelmingly in the House, they were blocked and stopped and never became law. This Smith bill would have desocialized, decommunized, and Americanized the N. L. R. B.

Third. The Logan-Walter bill, which would curb the power of bureaucrats and have retained in the hands of our people some of those things we have termed individual liberty and rights under the Constitution of the United States, was also blocked and stopped and never became law.

Fourth. The shipping bill, wherein the captain of a ship was empowered to select his own crew.

These were all blocked and stopped by this subversive group who had the power to do it and who would like to socialize or communize this Government. There are many other items that come within this same category, recently, among them none other than the antistrike provision in a recent bill in the House, when the notorious Harry Bridges and his subversive gang moved into Washington and had enough power to stop this amendment and knock it out.

Another illustration is this man Lasser, one of the heads of the notorious communistic Workers Alliance, who was placed in an important position in the W. P. A. The House of Representatives could not quite swallow this and passed an amendment cutting out his salary, as they could get rid of him no other way. I cite the above, and quote as a fact, that these subversive interests did have enough power and control over Congress to stop American laws and substitute therefor socialistic and communistic laws.

Do the people of this country demand more proof, or are they going to await the time the Communists take us over, physically, mentally, and lock, stock, and barrel?

Do not the people in this country realize that the wastage of money calls for high taxes, and that high taxes bring on depression and unemployment in the long run, and that these depressions and high taxes make fertile ground for socialism, communism, and revolution, which many of these socialistic, communistic leaders advocate today?

None of our people object to a real defense program that will continue our freedom and security, but all of our thinking people object to this program that is working with the plans of the Communists and Socialists that will eventually destroy our form of government, and with that destruction freedom for labor, business, industry, and the individual.

Legitimate national defense should be had, and will be had if some of us can have our way. It is my opinion that three things must be done if a real national defense is to be had and national security is to be had, and they are these:

First. Check up, retrench, and quit spending for unnecessary, unreasonable, and undesirable items, and knock out the socialistic functions of government.

Second. Business efficiency in spending for national-defense items whereby we get value for money spent.

Third. Knock out and cut out any political considerations wherein certain groups or classes are given money that they are not entitled to, which amounts to bribery for their political consideration. Whenever these newly created classes are handed this form of pork-barrel treatment, the taxpayer should realize that he is going to be called upon to pay the bill.

This is the day of reckoning; and while a part of this may be going for national defense, the taxpayers of this country should know that those who have tried to buy the favor of certain political groups have not yet paid these groups all they want with their own money. They are now calling for the taxpayers to put up the taxpayers' money to pay for this great amount of political influence which those in charge have bought.

One other thing: The chairman of the committee has made the statement that this is more or less a makeshift bill and that there will be others to come. If this is true, why could not our people be told the total amount of their obligations at this time? Is it fear that if our people acually knew their financial situation they would rise up and stop this wastage of money and the socialistic encroachment? I believe our people should be told the whole truth, and told it right now, because I have confidence that if they were told they would demand from their representatives in Congress that wastage be stopped, and stopped immediately.

All these things above may sound rather hard, and it is with some reluctance and hesitancy that I make these statements, and have only made them after sound consideration and thought. My final conclusion, however, is that the friends of the American people and the friends of American Government will tell the people of that Government the things that they ought to know, and not the things that they like to hear, and the things that it is necessary for them to know, even though they may not like to hear them.

It is in that spirit that I make these statements, and so far as I am concerned I think every statement I have made herein is true, and I hope that this message may be carried to the people in this country in order that they may know something of the real picture here in Washington.

Mr. TREADWAY. Mr. Chairman, I yield 15 minutes to the gentleman from New Jersey [Mr. McLEAN].

Mr. McLEAN. Mr. Chairman, as I have observed the construction of the bill we have before us, I have become convinced of two things. One of them is that the bill, as finally written, is entirely cut of line with the kind of bill that we started out to prepare. For that the Ways and Means Committee cannot be blamed, because since we started on our task, the demands of the country and the need for wide expenditures have very substantially increased, due to circumstances far beyond our control.

I have also become convinced that the people of the country realize the problem of the Congress and are satisfied that our needs and demands must be met and that it will require a great deal of sacrifice, and these sacrifices they are willing to make for the cause and under existing world conditions.

The situation as it presents itself to us at this time results in one conclusion, namely, it is a waste of time to try to balance the revenue which this bill will produce with the amount of expenditures that must necessarily be made and the bill we will have to pay. Therefore in the observations I make, which I intend to make directly to section 111 of the bill governing the joint-return feature, I think it useless to use as an argument against the elimination of that paragraph of the bill the fact that revenue will be lost as a result, because as has been said and as is well understood, developments since preparation of this measure began have entirely changed the premise upon which our tax structure of the future must be based. The demands make a supplement to this measure necessary and any rearrangement of anticipated revenue that may be necessary can be taken care of in connection with that measure.

It has been said that only 5 percent of the taxpayers will be affected by this provision. That these are the people who are profiting or benefiting by the fact that they now file separate returns in the assessment of individual income as against joint returns, filed by husband and wife whose combined income would be assessed as one. But the argument is silent upon the fact that there are 130,000,000 people or thereabouts in the United States and that out of these 130,000,000 people, during the year 1938, only 3,041,000 filed income-tax returns. This year it is estimated that the number filing such tax returns will approach 16,000,000. This increase in the number of taxpayers is due to the fact that in the last revenue bill we widened the base. That is to say, we reduced the exemptions which a person could claim against his tax, and this reduction widened the base and increased the source of revenue accordingly. So, whereas in 1938 the taxpayers were 3,000,000, there will be 16,000,000 this year. Certainly, it does seem that out of our population of 130,000,000 we ought to be able to find more than 16,000,000 people who ought to be contributing to the conduct of their government, particularly at this time. This is a fertile field for the Committee on Ways and Means to explore. I made that suggestion in the committee and made an effort to have adopted a system whereby the base would be broadened,

but for reasons which I do not understand, my motion did not prevail. But some time it will prevail, and then there will be more equitable Federal taxation.

This matter of separate returns requires that a husband and wife living together shall make a joint return and that the tax shall be computed on their aggregate income. This is a new departure in our tax system. Whereas up to now the object of the income tax has been the individual, we now propose by this act and under the stress of existing world conditions to establish for income-tax purposes a family unit consisting of a husband and wife living together. That phrase "family unit" I take from the proponents of the measure. All other family units, such as a brother and sister or a mother and child living together and a husband and wife living apart from each other, are not to be subject to this increased tax burden. The real object is to obtain more revenue by a device which will carry incomes subject to tax into brackets which will pay a higher rate. I have reached the conclusion that such a provision would, first, be contrary to public policy. Whether or not it is constitutional, there are matters which come entirely within the Constitution but which it is inadvisable for the Congress to adopt, because they are against public policy. Secondly, because the proposal would be unfair, because it is inequitable and discriminatory; and, thirdly, because it will go much further than the 5 percent of taxpayers whom we are told it will affect.

It has always been the policy of our law to encourage matrimony, and the establishment of home life, and likewise to avoid any laws which would interfere with the creation of that relationship and its successful continuance. The answer to the suggestion is that it is ridiculous to suppose that the liability for increased taxation would restrain those who would otherwise enter into matrimony, or affect its continuous existence. The fact is that this proposal is sufficiently controversial to create a doubt as to its fairness and wisdom, and its consideration should be deferred until such time as it can be gone into on its merits—not enacted merely because of its supposed value as a source of revenue. We have long outlived the idea that women are mere dependents, or that on entering upon the marital relationship they become a chattel, and are required to give over to their husbands all of their worldly goods. There is still reserved to manhood protection, helpfulness, and guidance. The obligations of chivalry seem to be inherent, but womankind has emerged from her lowly position of the early ages to attain independence, self-support, and leadership, which we are all proud to commend and which has made a great contribution to our present-day civilization.

In a complete marital union joint interest in the family income will not interfere with the dispositions of husband and wife, but my experience in my profession has given me an insight into the effect which financial differences often have on what otherwise would be a successful marriage. I cannot help but feel that compulsion on the part of the Federal Government which will immediately change the habit of life of thousands of homes will bring about unhappy situations. I know of many instances where a husband does not care to be concerned over his wife's income and does not take it into account in the ordinary expenses of their joint lives. I know of others where it would be desirable that a wife should not be informed of the husband's income, and the converse is also true. The result would be many extravagances and resulting disagreement. The idea here is to tax the family unit. All household or family units are not based upon the relationship of husband and wife. There are many family units consisting of relatives living together, such as one living with a brother, a sister, a mother, or other relative or any combination of these. The combined income is the basis for maintaining the household, and all the elements of family unit are present and yet for income-tax purposes we are to consider a family unit only a husband and wife living together. By this method we place a burden upon those who have heretofore been the object of liberal laws to encourage the marital relation. It is not difficult to instance cases where prospective marriages would be postponed under such circumstances. And can we in good conscience compel husband and wife, living together and conducting themselves as right-living citizens and outstanding examples of moral conduct, to make substantially larger contributions to the tax burden, while we permit their neighbor living separate and apart from husband or wife to profit from his or her matrimonial differences.

Said the Supreme Court:

> It can hardly be claimed that a mere difference in social relations so alters the taxable status of one receiving income as to justify a different measure of taxation.

I have said that the arrangement would be inequitable and discriminatory. For example, two sisters received an inheritance from their father. One sister married and bore children, the other remained single. The inheritance which the sister who married received from her father would be worth considerably less to her than that of her unmarried sister, for the reason that her tax would be considerably larger, being forced into brackets which would pay a higher tax because it must be combined with that of her husband. Again, relatives with separate incomes living in the same household and whose combined income goes into its maintenance are certainly a family unit. Let us assume that a brother and sister, unmarried, living with their widowed mother, each with an income of $1,500, all contribute from their separate incomes toward the maintenance of the household. No joint return would be required and the combined income would be taxed in that bracket which fixes the rate on $1,500 of income; whereas in the case of a husband and wife having a combined income of $4,500, their income would reach brackets requiring payment at the rate of income of $4,500. That is the purpose of this proposal, to raise additional revenue.

The science of taxation, if it is a science, looks to the social effects of the levy and certainly that rule argues against this proposal.

The arguments in support of the measure are substantially to the effect that the rich people have transferred a portion of their assets to their wives for the purpose of evading taxes on the income in the higher brackets; and the inference is that only that class of people will be affected by this provision. It infers that where a husband and wife are fortunate enough to have separate incomes there is some element of dishonesty for the purpose of tax evasion, and that by the enactment of this provision that situation can be corrected. The assertion is made that it affects only 5 percent of our taxpayers. In my judgment the penalty on marriage which would result from compulsory joint returns will go much deeper than that.

Instance the ordinary artificer or mechanic working at his daily trade at a wage of $15 per day, with time and a half for overtime, and whose aggregate income for the year will be approximately $4,500. His wife does part-time house work in the neighborhood, for which she receives $4 a day for perhaps 4 days a week. She will receive an income of approximately $900 a year. During their lives together they have accumulated sufficient to own a two-family house, in which they reside and from which the wife receives an income of $30 per month from the other apartment, or approximately $360 a year. Under the present law the tax of the husband would be computed on a gross income of approximately $4,500 and that of the wife on approximately $1,192. Under the proposed provision of this law they would be required to file a joint return, and their income tax would be computed on a gross income of upward of $5,700 per year, carrying the levy into the higher brackets and substantially increasing the tax. These are not rich people. These are the ordinary, thrifty—some may say humble—citizens. That is why I point to the fact that this program will go much deeper than to the 5 percent who are picked out as illustrations of malfactors whom this provision is intended to reach.

From examples such as these it can be readily seen that it will not only be the rich that will be struck by this hastily conceived idea. In our zeal to correct apparent existing ills we must be cautious not to create others that we know not of.

I do not argue for the individual who, by the device of transferring securities to his wife, has avoided paying the tax which, under the law, he fairly owes to his Government, and I am ready to admit that there are many such cases. I would support a method whereby that kind of tax evasion could be met. If the method of joint returns is the method by which it can be met, I would support such a provision, provided the wife would be separately taxed on her own estate except insofar as the principal of it was received from the husband for the purpose of tax evasion. In other words, on grounds of public policy I would insure

to the married woman that independence which she now enjoys, considering as her own separate estate such property as has come to her apart from any effort of her husband, and certainly most of all as earnings from her own efforts and ingenuity.

I anticipate that advocates of the system of joint returns as herein proposed will propound the inquiry that, if this provision is stricken from the bill, it will be necessary to look elsewhere for $300,000,000, which it is proposed to raise. Such inquiry does not go to the merits but confirms my contention that the purpose of this provision is to raise revenue and that its social influences have been lost sight of or disregarded. While we do the best we can to estimate income and measure the tax levy by the requirements of the Government, who is there that is willing to say or estimate, with any degree of certainty, the exact amount a revenue bill will raise or even approach? It may as likely as not run over the estimated amount as to fall short of it. We need not concern ourselves very much along this line at this time because the requirements of the Government have very greatly increased while this measure has been in the course of development. We all know, and the country knows, that the tax problem will be with us for a long time to come and that in the not far distant future we will be working out other means of taxation, and that before this Congress adjourns there will be another tax bill. If we were honest with the American people, we would broaden our income-tax base. We would call upon those who do not now make a contribution to the Federal Government, and we would develop a most fruitful field for tax-seeking endeavors. Also, sooner or later we must seek to reduce nondefense expenditures. The suggestion is frequently made; and if we do not attempt it, we will soon be doing it under the pressure of abject necessity and our inability to impose further taxes.

Mr. CROWTHER. Mr. Chairman, I yield such time as he may desire to the gentleman from Missouri [Mr. BENNETT].

WHAT WILL THE AFTERMATH BE?

Mr. BENNETT. Mr. Chairman, during the few months that it has been my privilege to sit as a Member of this House, I have watched with more than ordinary misgivings the course of legislation through the Congress. To say that I have been sorely disappointed in my expectations of what this legislative body would do in the present emergency is putting it mildly. Knowing full well that the Government has not been able to balance its budget in more than 10 years; knowing that for all intents and purposes the Treasury of the United States was virtually empty; knowing full well that the faith and credit had already been subjected to a severe test in meeting the demands for the billions that have been borrowed and spent in an effort to buy back the prosperity that we lost mainly as a result of this Nation's participation in the last World War; knowing that the present Chief Executive was elected in the first instance principally on his promise of a drastic reduction in the cost of government; knowing, too, that as late as 1938 he was promising there would be an end to the deficits, it was but natural that I should have some misgivings about the survival of representative government should the present emergency continue and the control of Federal spending remain in the hands of the bureaucrats now in the saddle and at the controls of every department and agency in the Government.

So, Mr. Chairman, I have sat here day after day with saddened heart and watched this body authorize and appropriate the billions about to be spent, because I realize that not a single Member can tell just how and where we are going to get the money to pay for our extravagances without taxation so severe that our whole social and economic structure, the foundations upon which our Nation's greatness and former prosperity was built, will be wrecked.

Mr. Chairman, I have set here day after day and watched government get further away from the people. I have sat here and wondered, what will the aftermath be? The revenue bill of 1941 only postpones the day of reckoning. It is but a feeble gesture to stave off national bankruptcy. It may delay inflation. At best, it is only a temporary expedient that we hope will bridge the gap until the spending can be brought either to a dead halt or to a figure within the means of the people.

Mr. Chairman, a free people will never submit to be chained indefinitely to the bondage of the tax collector. I know, Mr. Chairman, that we will never unite the American people behind any program in which the hazards are so great and the possible benefits so doubtful. I know the American people will not unite behind any program to which the majority are so overwhelmingly opposed. I speak of war, foreign war with all its gruesome and ghastly implications.

THE ECONOMIC CONSEQUENCES OF OUR DEFENSE EFFORT

Before we consider the possibilities of participating in any foreign war, the Congress should examine the economic consequences of our present defense effort.

The total to July 26 of United States Government appropriations, contract authorizations, and funds made available to the Reconstruction Finance Corporation for defense amounts to $47,116,000,000. The national debt is now over $49,300,000,000. Add to this the more than $6,000,000,000 of contingent obligations of various New Deal agencies, and the debt situation becomes startling. Yet, in 1941, we have authorized spending in excess of forty-seven billions, and the measure now before the Congress contemplates the spending of eight billions more.

Mr. Chairman, on July 15 the total deposits of all the active banks in the entire United States amounted to less than $67,000,000,000. This sum represents the accumulated savings, the working capital, and the measure of security for millions of Americans, men and women. So, as we enter this new phase of our national-defense program, we ought to review the operations of the past 8 years and try to profit from experience. During the past 8 years billions have been poured out upon projects which in the main had intense social desirability, but which now, in the emergency, cannot be classed as necessary. And if we measure our past follies against such tangibles as better food, better clothing, and better housing, it drives home very forcefully the wisdom of Grover Cleveland's remarks, that—

> For the people to support their Government is but natural; but for the Government to support the people, that spells disaster.

But in the past 8 years this Government has not alone attempted to support a large part of the people, but it has consistently sought to render aid to other nations and other peoples whose ideals and ideologies are totally divergent from those of the American people.

So, out of the fullness of our hearts and the emptiness of our Treasury we have appropriated $7,000,000,000 for lend-lease aid to Britain. On top of this lend-lease aid we are faced with the task of financing our own defense program, made doubly costly by reason of its very urgency.

Although experts and officials high in the Government report our own people, at least 40 percent of them, are suffering from the effects of malnutrition and poor diets, we are now going to help feed the world. But our own Army and the Civilian Conservation Corps will continue to be taken care of, no matter how the people's diets are affected.

Mr. Chairman, I was greatly interested in a news release that came to my attention last Sunday. The Federal Security Agency is the authority I am now about to quote. For each of the more than 200,000 enrollees in the C. C. C. the Government provides 375 pounds of meat yearly as against an average of 115 pounds consumed by the Nation as a whole. The Government provides 46 pounds of chicken as against 17 pounds by the taxpayers; 114 pounds of sugar against 96 by the taxpayers; and the average C. C. C. enrollee consumes about twice as much tea and coffee as the average citizen. So the boys, as they work, are living on the fat of the land.

Mr. Chairman, if we were to raise the diets of the rest of the American people to Army and C. C. C. standards we would have no food to export, we would have no surpluses, and we would need to put millions of idle acres to work. This news release alone shows the folly of an economy of scarcity But since this emergency has become the pressing business of the administration the rising indexes of foodstuffs show that the diet of the American people is in danger of being sharply curtailed. Food costs have advanced much faster than pay rolls, and this means trouble for the housewife and skimpy meals for the family.

I do not object to feeding the boys in the Army and in the C. C. C. camps the best the markets afford, but I do think we ought to give a little bit of consideration to the undernourished taxpayer and his children who will have to foot the bills. I want to take first things first. I want to feed our own people before we start out to extend charity, along with

the four freedoms, to the four corners of the earth.

So what will be the economic effects of the defense program upon our people? The industries that have successfully withstood the impact of the industrial slump of the past 8 years are now putting forth every effort to meet the demands for defense materials. New industries are being brought into production almost overnight. Old ones are being expanded. Is all of this to satisfy the common wants of humanity? Certainly not.

Will we emerge from this period of industrial activity richer in the finer things of life? Certainly not. But it is just as certain that we will emerge a sadder and wiser people. More food, more clothing, and better housing as a general objective will, for a time be sidetracked, while the Nation bows to the god of war. And the production of the American people will be devoted to the protection of democracy and the four freedoms, although some object, throughout the Western Hemisphere and other parts of the world.

Such is the contemplated program. Some have suggested that, in effecting that program, we as a Nation, may in the end, sacrifice our own freedom and wind up either as a totalitarian State guided by a dictator, or as one of a coalition of socialistic States in which the United States will continue to play the part of Lady Bountiful to Great Britain and her colonies. This is the tragedy that is unfolding. In this hour no citizen can sit smugly at home and say that the disintegration that has destroyed other nations cannot destroy ours. It may happen here, but it cannot happen here if the people are informed. Therefore, it is a duty of citizenship to be informed and it is the duty of government to keep its citizens informed, and truthfully informed, especially on fiscal matters.

Mr. Chairman, how many citizens do you think know how critical the present fiscal situation has become? Is it not a fact that in the good old days, when a citizen, either through carelessness or indolence or wasteful spending, became a pauper, the State stepped in because the pauper was a liability to society? Did the State attempt to capitalize the pauper? No; the State attempted to feed him and rehabilitate him. We must rehabilitate our pauper Government, our Federal Treasury. We must stop the wasting. We must reorganize downward. We must cut the pay rolls and fire the paytrioteers.

Mr. Chairman, for 8 years this administration has been capitalizing the poor of the Nation. They have seized upon an unfortunate situation to extend the frontiers of bureaucracy. In fact, under the guise of benevolence, we have been treated to the spectacle of oligarchy masquerading as democracy.

Now, only the people stand between democracy and its total collapse. We have paid a fearful price for the experiments of the past, and we will continue to pay and pay for generations. But, Mr. Chairman, should the warmongers drag us into the present world conflict, against the desires of the people, the cost of that participation will overshadow anything heretofore contemplated.

Oh, I know, some will say that this is a wail from the doghouse. But the American people are all in the doghouse, except those who will make millions out of this program and the paytrioteers who have affixed themselves to the pay rolls.

Mr. Chairman, I was amazed at the revelation last week before a Senate committee that the Todd Shipyard Co. had made profits as great as 40 percent, upon certain contract work executed for our Government.

I was more startled when I found that in the month of June our per capita national debt had increased from $359.60 to $368.74, an advance of $9.14 in 1 month.

If we continue to spend at that rate, Mr. Chairman, this means that in the present fiscal year each man, woman, and child in America, rich or poor, will be obligated by his Government for an additional $108. This is a fearful price to pay for preparedness when we are separated from any potential enemy by 3,000 miles of the Atlantic and 6,000 miles of the Pacific.

Mr. Chairman, during the last 12 months the per capita circulation of currency has been increased, the total new money being added to the jackpot being $1,646,616,000. This increase in the medium of exchange may for the moment confuse the people. But it is only part of the scheme to capitalize our debt. The Nation will someday learn that the mere printing and circulating of paper money does not add to the wealth of the Nation any more than the production of war materials contributes to the people's fuller enjoyment of the more abundant life.

Thus, I predict that those who base their future economic security upon the present defense boom and its deficit financing are due to a rude awakening someday to the truth of the old adage by Benjamin Franklin, "Always taking from the meal box and never putting in soon comes to bottom."

Therefore it is with great misgivings that I shall support the new tax bill. There are many features that are distasteful to me. As I previously stated, I consider it but a feeble gesture to stave off national bankruptcy. I say this because I know that if we were to liquidate the Federal, State, and local debts tomorrow or in the next 10 years, the liquidation would amount to a "wash-out" of all the capital assets of the Nation.

Mr. Chairman, I do not believe the physical assets of the Nation are today in excess of $350,000,000,000. Against these assets the billions in private and public debts are a liability that unless progressively reduced and ultimately liquidated will crush our civilization. When civilization falls it will fall not a victim of war but a victim of political and financial exploitation such as the world has never seen.

Let us then manfully face the distasteful fact that if we do not meet our obligations we must travel down the long road that leads to any one of three places—inflation, repudiation, revolution. God forbid that such should be our lot.

Mr. CROWTHER. Mr. Chairman, I yield to the gentleman from California [Mr. GEARHART] 20 minutes.

Mr. GEARHART. Mr. Chairman, there never has been and never will be a tax which was or will be popular with the people who have to pay it. To borrow from the vocabulary of that legendary character from the backwoods country who, while a visitor at a public menagerie, saw for the first time the somewhat grotesque figure of a giraffe: "There simply ain't no such animal." And despite the lofty protestations of those who write me letters to proclaim a burning, patriotic desire to pay taxes in greatly increased amounts, I never fail to find the inevitable "but" which precedes the exposition of a compelling reason why the proposed levies which would hit them if enacted into law should not be adopted.

Even though it is not possible to write a tax law which is popular, I believe the Ways and Means Committee in this instance has done a most excellent job, as good a job as could be expected from 25 men working very often at cross-purposes. Even though I think it is a reasonably good job that they have done, there are several provisions in the bill to which I cannot give my approval. It is to those provisions I desire to address my attention during the few minutes I shall occupy the floor.

I am bitterly opposed to the provision which requires compulsory joint income tax returns by husbands and wives. This part of the bill will be before us for a separate vote under the 5-minute rule. In view of the importance of the subject we can well afford to devote a considerable portion of our time to a discussion of this highly controversial proposal. Although I have not been on the floor constantly during this debate, during the time I have been here I have heard so much said concerning the community property system which is not true that I am constrained to devote a few moments to the question of just what community property is.

The gentleman from Oklahoma [Mr. DISNEY], who preceded me today, delivered what I will ever regard as a most effective presentation of his views and left the impression, unintentionally, I am sure, that all of the income of people who happen to live in the so-called community-property States is community income which is divisible for income-tax purposes as between the parties to the community.

Let me point out that under the law of California and, I think, of every other one of the States which have adopted the community property system, persons who happen to be married to each other can hold property under as many different systems as are known to the law, though, it would seem, the community property relationship is the only one to which anyone today is giving any thought. People who happen to be married to each other can, in their own right, own separate property. They can own property in common. They can own

it, even though they are married to each other, as joint tenants, with right of survivorship. They can own property in California under about every conceivable legal relationship that appertains anywhere. The community property system is not all-embracing by any means. In a separate return of a married person who resides in a community property State may be contained income that was derived from separate property, estates in common, joint-tenancy property as well as the income which is classed as community income. In view of this, the comparison of the number of separate returns with the number of joint returns does not instantly reveal the full story.

I also think that the impression has been left from that which has been said by the gentleman from Oklahoma and other speakers that California and the other community property States have devised this system for the very purpose of evading, anyway, of avoiding, the income tax laws of the United States.

Let me call your attention to the fact that the income-tax amendment to the Constitution was adopted in 1913. California and many, if not all, of the other community-property States have been community-property States during all the time they have been a part of the Federal Union. California was admitted to statehood in 1850. California was a community-property State then. It was a community-property State when it was under the flag of czaristic Russia. It was a community-property State when it was under the flag of the United States of Mexico. It was a community-property State when it was a province of the King of Spain. So neither California nor any of these other States which were carved out of territory that was formerly Mexican, as California was, can be justly charged with having devised this system for the purpose of reducing their Federal income-tax responsibility. The income-tax law is, comparatively speaking, a recent innovation, but the community-property system is as old as the white man's occupation of the Western Hemisphere; yea, even older. It is the application of the income-tax amendment to the Constitution upon the already established community-property system against which some in this House are today protesting.

Mr. VORYS of Ohio. Mr. Chairman, will the gentleman yield?

Mr. GEARHART. I yield.

Mr. VORYS of Ohio. Would it be possible under the California community-property law for a Congressman, for instance, to divide his salary between himself and his wife so that they would each make a separate return and pay income tax upon $5,000?

Mr. GEARHART. Not only is it possible but that is precisely how income derived from the earnings of married people who live in community-property States is handled. Under the community-property system the wages and salaries of either or both of the spouses constitutes the community estate in which each has a definite one-half interest. These legal principles do not apply to income from separate property; they do not apply to income from common property; they do not apply to income from estates in joint tenancy, with right of survivorship. Subject to many exceptions which arise in special situations only that income which is acquired by either the husband or the wife during the time they are married, from salaries or wages, or from the investment of saved salaries or wages, is taxable. Let me point out again in this connection that any property acquired by either spouse prior to marriage, together with the rents, issues, and profits thereof, is separate property. Any property acquired by either of the spouses, including the rents, issues, and profits thereof, after matrimony, by gift, devise, consent, or bequest, remains and is the separate property of the party so acquiring it.

Mr. KNUTSON. Will the gentleman yield?

Mr. GEARHART. I yield to the gentleman from Minnesota.

Mr. KNUTSON. Does the distinguished gentleman from California maintain that because these community-property States had a law which permitted separate returns at the time they went into the Union we have not the right to change that order?

Mr. GEARHART. For the purpose of argument, I am willing to admit that Congress for Federal purposes can write its own income-tax law as it sees fit. But are you not attaching altogether too much importance to community-property phases of this problem? The advantage which community-property taxpayers enjoy is of small consequence when compared to the thirteen billion dollars we expect to raise by taxation this year. The abolition of this saving which taxpayers who happen to live in community-property States will not add much to the national exchequer.

Mr. KNUTSON. It is going to produce $350,000,000. I would not call that a small matter.

Mr. GEARHART. That is exactly what I am trying to explain. By compelling by law the filing of joint income-tax returns you will take a small benefit from community-property taxpayers and impose on all of the married taxpayers of the country a burden of $3,000,000,500, a colossal levy upon the marital status. In other words, you are reaching into the pockets of people who happen to be married and gouging them to the extent of $350,000,000—married people in every State in the Union.

Mr. FISH. Will the gentleman yield?

Mr. GEARHART. I yield to the gentleman from New York.

Mr. FISH. Is it not a fact that these very same people under this particular bill, these middle brackets and higher brackets people, particularly the ones in the middle brackets between $3,000 and $50,000, are already soaked and swatted right and left, taxes on the right, left and all around, and now they want to come in here and find some other way to gouge them? Beyond it all, is there not a higher principle involved, that you do not want to destroy the economic freedom and the economic independence of women and set them back 50 years, whether it involves $300,000 or $3,500,000,000?

Mr. GEARHART. I entirely agree with the gentleman from New York. It is just an ingenious scheme to increase the tax burden of people who happen to be married to each other, because, as someone figured out, three billion five hundred million can be gotten that way.

Mr. Chairman, I am going to talk about a young fellow and a young girl who do not happen to live in California or in any one of the other community-property States. I am going to tell you what will happen to them if you write this ill-advised legislation upon the statute books. For the purpose of round figures I am going to take the case of two young people of opposite sex, each of whom are earning $10,000 a year. If you think you are merely getting even with the community-property States by writing this on the statute books, I will ask you to consider this case and I think you will agree with me when I conclude that you are soaking yourself right on your own nose when you write this joint income-tax proposal on the statute books.

So let us consider the situation of these two young folks who we will call, for convenience, John and Jane. As single, unmarried persons, each of them will pay a tax under this new proposal of $1,469.60. In other words, they will severally pay into the Treasury on two independent tax returns a sum which totals $2,939.20. Just bear in mind that their individual responsibility is $1,469.60.

If John and Jane should happen to fall in love with each other and get married, under the compulsory joint system contained in the pending bill and which I hope you will strike out, they will suddenly have their taxes hiked up to $4,238.40. In other words, if they get married they will have to pay $1,399.20 more than they would have to pay if they remained single.

If we divide this additional tax burden which John and Jane will have to carry by two we will find that, because they got married, each owes Uncle Sam $699.60 more than he or she would have had to pay if one had been left "waiting at the church." If we divide this annual tax payment by 12, we will learn that, for the privilege of living together as husband and wife they will have to pay to the internal-revenue collector a penalty of the not inconsiderable sum of $58.20 a month. That is matrimonial bliss in a non-community-property State where John and Jane happen to reside.

Mr. RICH. Will the gentleman yield?

Mr. GEARHART. I yield to the gentleman from Pennsylvania.

Mr. RICH. Suppose this same man had all the income. Suppose they got married. We will divide that income with his wife, and then they will pay the figures that the gentleman suggested for the two of them. Suppose that man lived in Pennsylvania and he married Jane. We cannot divide income in Pennsylvania. He has got to pay the full tax. But in California you divide it up by giving her half of it, because they live in California. It is like the old saying, "California, here we come."

Mr. GEARHART. I prefaced the story of the sad tax experiences of John and Jane by pointing out that they were not residents of a community-property State, but of a State which might have been, for purposes of the illustration, Pennsylvania. If you adopt the mandatory joint return, John and Jane, residents, perhaps, of your congressional district, are the ones who are going to get soaked an extra $1,399 simply because they happen to fall in love and get married. They are the ones who are going to have to pay the extra $58 a month for the privilege of being married and living together; that is, each of them will have to pay that. Because Pennsylvanians are going to get gouged beyond all justice and reason, it would be my suggestion that you, as a Pennsylvanian, give careful consideration to just what is going to happen to your constituents if this iniquitous proposal is finally enacted into law. But you just cannot seem to get California and the other community-property States out of your mind. Man alive, it is time you think about your own.

Mr. RICH. If we want to treat everybody in the United States alike, then we have got to write the bill as it is now written, so that you fellows in California pay what we are compelled to pay in Pennsylvania, New York, and Ohio.

Mr. GEARHART. The gentleman has given expression to that idea many, many times and as many times has ignored the effect which the adoption of this proposal will have upon his own people. Let us not lose sight of the real point in issue. Let us not forget that if you compel joint returns it is going to hit every State in the union alike. Community and noncommunity States are going to have to submit to a terrible tax gouging. And in imposing this tax penalty on those who have entered the married state don't forget that you are reversing the policies of this Government and, I think, of every other civilized government on the face of the earth, in that it has always been the policy of government to favor matrimony, to extend privileges to people who happen to be married, to offer inducements in the way of tax advantages to induce people to get married. But in requiring joint tax returns and indulging the gentle art of tax gouging you are reversing the policy which has guided government from time immemorial. Can it be said that we are encouraging matrimony when we in effect say to the young people of this country, "If you get married, be prepared to take on a tremendously increased tax burden." That a tremendously increased tax burden is the consequence which must be faced if the mandatory returns section is adopted, cannot be denied. The story of John and Jane, which I have recited must be taken as true. The tax figures which I cited were obtained from the staff of the Joint Committee on Internal Revenue and Taxation and cannot be denied.

Mr. RICH. Mr. Chairman, will the gentleman yield?

Mr. GEARHART. I cannot yield any more.

Mr. RICH. Just one question; I want to help the gentleman this time.

Mr. GEARHART. I do not need it. Thanks.

Speakers who have heretofore risen on this floor and advocated this innovation have denied that this would constitute a penalty on the marital relationship. In view of the figures I have just read to you, how can anyone escape that conclusion?

Mr. DOUGHTON. Mr. Chairman, will the gentleman yield?

Mr. GEARHART. I yield to the gentleman from North Carolina.

Mr. DOUGHTON. While I do not wish to get into the colloquy between my distinguished friend and the distinguished gentleman from Pennsylvania, the gentleman spoke of the number of people in Pennsylvania who would have to pay more taxes. May I say that in the State of Pennsylvania 499,876 persons made income-tax returns, and of that number 19,036 made separate returns and 480,840 made joint returns. That is, less than 4 percent made separate returns. Consequently, less than 4 percent of the people of Pennsylvania could be hurt by this provision and they are those most able to pay taxes. The 96 percent, who are not so able to pay taxes, would be hurt and only 4 percent would be benefited in the State of Pennsylvania, according to the figures if this proposition were not adopted. Less than 4 percent take advantage of the privilege of making separate returns. The other 96 percent would not be hurt by making joint returns because they are making joint returns now. Continuing to make joint returns could not hurt them.

Mr. GEARHART. True, in some States, for convenience, married people make joint returns. True, in community-property States married people almost universally divide their salaries and wages and make separate returns. That is the fact. To attempt to deny it would be futile.

Mr. DINGELL. Let me tell the gentleman why they do it.

Mr. GEARHART. In just a minute.

There is one thing we are forgetting about this proposal to require joint income-tax returns and that is that in addition to compelling everybody to file joint income-tax returns the rates are hiked tremendously. It is the combination of joint returns and exorbitant rates that hurt.

[Here the gavel fell.]

Mr. CARLSON. Mr. Chairman, I yield 5 additional minutes to the gentleman from California.

Mr. McKEOUGH. Mr. Chairman, will the gentleman yield?

Mr. GEARHART. I yield to the gentleman from Illinois.

Mr. McKEOUGH. At this juncture I think it is well to point out, and I am sure the gentleman from California will agree, that there are two factors involved in the separate returns of a man and woman living as husband and wife. The first relates to the community-property States. In those particular instances—and there are 8 of them out of the 48 States—there can be an arbitrary division, 50–50, regardless of the source of the income.

Mr. GEARHART. From salaries and wages.

Mr. McKEOUGH. Yes. In the non-community-property States, in the case of those who allocated their assets from 1913 to 1932, when there was no gift tax, they are compelled under the law to return in their separate returns only that which is their income, whereas in the eight community-property States they have the advantage of arbitrarily dividing the income 50–50. I think that ought to be touched on.

Mr. GEARHART. It has been brought out time and time again by not only the gentleman himself but by everybody who has asked me to yield. I believe everybody is thoroughly impressed with the fact that in the community-property States income derived from salaries and wages can be divided and separate returns may be made by husband and wife.

In answer to that, I again point out to you as emphatically as I can that that is an insignificant drop in the bucket as compared to the total of American tax take. It is of no importance when you consider what is going to happen in the non-community-property States. The point I wish to impress upon you is that you in the non-community-property States are going to take a sock on the nose that in the parlance of the prize ring is going to knock you cold. Do not forget that fact. Do not forget you are going to make every one of our Johns and Janes who get married in one of the non-community-property States pay a penalty of $58.20 a month each for the privilege of getting married, assuming that they each have a $10,000 income. It is going to hit the people in the community-property States a little bit harder than you in the other States will be hit, but the blow that falls in the non-community property States will be no love tap.

Before I leave this floor, Mr. Chairman, let me reemphasize that which I adverted to early this afternoon. In the imposition of penalties upon the marriage status you will be reversing a policy that is as old as this Government, as old as every other enlightened government on the face of the earth, the policy of offering encouragement to young people to enter into the marital state by the granting of privileges and tax concessions. If you enact this legislation, you will be taking from women advantages they have fought to achieve down through the years. For generations beyond numbering women have fought for economic emancipation, for the right to be considered persons before the law, and for equal treatment in their relation to government. If you enact this highly controversial proposal into law you will have turned the course of her advancement backward toward those hated days when womenkind were indeed chattels of the marital relationship.

You will hear more of what is in this bill if you adopt this provision. You will hear a lot more about it in the days to come. With every minute that ticks upon the clock, with every day that passes, with every month that you turn on the calendar, you will hear in increas-

ing crescendo the protests against this reactionary law which takes from women that for which they have been battling for years untold. If you vote for this unholy provision, be prepared to meet a rising issue that will never be quieted until it is blotted from the statute books, erased from the memory of man.

With the indulgence of the membership, I would, Mr. Chairman, ask your consideration of another section in the bill. I will not yield further.

RADIO-BROADCASTING NET-RECEIPTS TAX

Mr. Chairman, section 601 of the revenue bill of 1941, which we are now considering, imposes on radio-broadcasting stations and networks a graduated excise tax measured by receipts from the sale of time to advertisers.

Newspapers and national magazines, with which radio competes for advertising revenue with which to maintain its service to the public, get off scot-free. Broadcasters, as might be expected, object strenuously to being thus discriminated against by this special levy, which places them at a disadvantage in competing for business with newspapers and magazines.

This special penalty on radio advertising will unquestionably drive many advertisers from radio to other competing media. The resultant loss of revenue would undoubtedly impair the ability of radio stations to serve the public. The inequity of a special tax on only certain forms of advertising ought to be obvious. Hastily collected data would indicate that broadcast stations would suffer a reduction of 50 percent or more in their net income, even after allowing for savings in excess-profits taxes. At least 13 stations affected were in the red last year, and as to them the proposed tax would be well-nigh fatal.

The tax is in reality a tax on the gross income of broadcast stations. It is standard practice for the industry to enter into yearly contracts with advertisers at a fixed rate. Many of these contracts protect the rate to the advertiser for periods even in excess of a year. Even if the advertiser would pay an increased rate, many stations will be barred by contract from attempting to pass the increase along to the advertiser. Thus the certain result would be decreased profits and in many instances no profits at all. This would create pressure to divert revenues which are now used in the development of a better broadcast service.

Mr. Chairman, the broadcasting industry does not and will not seek to evade its just and proportionate share of the tax burdens which must necessarily be increased because of the present emergency. The industry does, however, object to being singled out as the object of a discriminatory tax. And, in this, I think they are entirely within their rights.

Broadcast station licenses are for only 1 year. Substantial investments must be amortized over a short period of time. Broadcasting is a new and rapidly developing art. Within a year high-frequency—frequency modulated—broadcasting and television have been authorized to operate commercially, which will require large sums of capital for their successful development. Manifestly, sufficient profits must be permitted to provide these funds. Who among us would contend that the public interest would be served by a tax which would cripple this development?

Broadcasting obviously has an important role to play in the national defense. Unnecessary obstacles must not be placed in its way. In the past year broadcast stations have freely given time on the air to further the recruiting programs of the Army and Navy, the sale of defense bonds, and the search for skilled mechanics for defense industry. The Civil Service Commission has credited 500,000 skilled workers to broadcasters' cooperation in the year ending July 23, 1941. The commercial value of the time thus gladly donated runs into millions of dollars. Broadcasters have declared their intention to continue to give time in the interest of national defense.

It is interesting to recall, Mr. Chairman, that on July 15, the executive committee of the National Association of Broadcasters adopted the following resolution:

> In view of current trade publicity being given to a proposed advertising campaign in behalf of the Navy Department to be placed through one of the large advertising agencies, the executive committee feels that the purchase of time by defense agencies might tend to restrict rather than enhance the most effective utilization of broadcasting during the present emergency.
>
> Therefore we wish at this time to reaffirm the industry's desire to continue its present practice of making its facilities available at no cost to Government agencies engaged in promoting the national-defense program.
>
> To inform the public of the industry's position, it is suggested that an announcement that all Government defense programs being carried without charge be used once each day by all cooperating stations.

In the light of the broadcasters' generous offer, it is also interesting to recall that the Navy Department advertising campaign is a test campaign using only newspapers, which will be paid $1,000,000 for their defense efforts in this connection. This serves only to heighten the discrimination against radio inherent in the proposed tax.

The first to agitate for a special, punitive tax on radio broadcasting was the International Allied Printing Trades Council, allegedly seeking to promote more jobs for the printing trades by means of penalizing radio advertising. It has been noised about that this tax has the support of the American Federation of Labor. In contradiction of this let me point out that just last week William Green, president of the A. F. of L., wrote the chairman of the Ways and Means Committee stating that the A. F. of L. had taken no position on the measure.

To show that all labor unions do not share the ideas of the printers, it is only fair to point out that three large A. F. of L. unions, the International Brotherhood of Electrical Workers, the American Federation of Musicians, and the American Federation of Radio Artists, have registered their opposition to this discriminatory tax. Radio employs large numbers of men and women who are members of labor organizations, and will create many more opportunities for employment in frequency modulation and television if the planned expansion of the industry is not prevented by the imposition of a discriminatory tax of the kind which is contained in this bill.

The broadcasters are entitled to equality of treatment, and they are entitled to no less.

Treasury estimates indicate that less than $5,000,000 in additional revenue will be collected from this source. Surely the fiscal program of the Government could not be seriously affected by the elimination of this discriminatory levy. The harm done to broadcasting greatly outweighs any advantage to the Government from the revenues to be derived from an unjust and discriminatory tax.

Mr. Chairman, point after point could be made with telling effect, argument after argument could be advanced to establish that this tax should not be levied. But my time grows short and I must bring these remarks to a close.

In the name of justice and fair play let us strike from the bill the tax on broadcasting, outdoor advertising, and the provisions which require joint income-tax returns by husbands and wives.

Amendments to that effect should be adopted.

Mr. DOUGHTON. Mr. Chairman, I yield 15 minutes to the gentleman from California [Mr. VOORHIS].

Mr. VOORHIS of California. Mr. Chairman, I have just heard from my well-beloved colleague from California [Mr. GEARHART], in his concluding remarks the same sort of warning that has been issued to me by many of my good friends in the last few weeks. I think I realize that for a man who comes from a community-property State to take the position which I am taking on this matter is probably not necessarily political wisdom. I am taking it because I believe I am right and because I believe that the committee's provisions in the bill on this matter are right under present circumstances.

I want in the first instance to say this. If we were in a period in this country when it was possible for us to talk about a reduction of taxes I would personally like to see us say that throughout the whole Nation we would permit for tax purposes the kind of arrangements of separate returns for husband and wife even as to salaries as well as other income that are in effect in community-property States. But we are not in that situation. Indeed, we are in a situation where we have a bill before us today which is an attempt to get as much revenue as we can get because of a great national need. It is important that we get it in the fairest way we can devise to get it. We are liable to have some more bills before the House before we get through, which will be in the nature of precisely the same kind of job.

Mr. DINGELL. Mr. Chairman, will the gentleman yield?

Mr. VOORHIS of California. I will but I hope I will not be asked to yield very many more times.

Mr. DINGELL. I think we will be able to get the gentleman more time if he will yield. I want to say for the benefit of the gentleman that there is a proposal on my part which I trust will materialize in the event this provision should be stricken from the bill, which will bring about exactly what the gentleman has in mind of making compulsory split or divided returns so that the entire Nation will have the same benefit as the privileged, individual taxpayers in my State have and the same privileges that are had in the community-property States.

Mr. VOORHIS of California. The gentleman would not press that at this time, I believe, would he?

Mr. DINGELL. I feel obliged to if this section is stricken from the bill.

Mr. VOORHIS of California. Oh, I see.

Mr. DINGELL. Because we are confronted with a practical purpose or problem of producing $323,000,000.

Mr. VOORHIS of California. That is exactly the point I make. My colleague from California who preceded me made the point that it was not a matter of concern just to the people of the community-property States. He is quite right. Indeed, if all there was to this provision of the bill were a prohibition against people in community-property States dividing salaries for tax purposes, I would be against such a provision. But that is not all this is. It is not even the most important part of it. What this bill says is that not only shall husbands and wives in community-property States report their income as if they were indeed a family unit, but also that people in New York and Illinois and every other place shall so report their income. In looking over the figures on this sheet, which all of you have before you, I find that in the State of New York there were 53,905 separate returns filed as against 57,000 such returns in California, or almost the same number. Who are these people in New York, and why is it that in the State of California only 10.9 percent of all the people in our State filed separate returns? It is because as to the other 90 percent of our people it does not make a bit of difference whether they file separate returns or joint returns, because their incomes are not big enough for it to make any difference. That is the reason. When the gentleman says that every young person who contemplates marriage is going to be confronted with a tax penalty against marriage, I beg to differ with him most fundamentally, because, as a matter of fact, not over 1 percent of the young people in America who might be contemplating marriage at this moment would be affected by this matter in one way or another. No family with an income of less than $4,000 is affected by it. Furthermore, I want to say this with a great deal of earnestness: I am not impressed by any arguments that have to do with a defense of the sanctity of the family which imply that a part of the purpose of marriage is to derive pecuniary benefit or escape part of one's taxes. If I did not believe American family life rested on a more firm foundation than that I would be hopeless indeed.

Mr. GEARHART. Mr. Chairman, will the gentleman yield?

Mr. VOORHIS of California. Yes; I should yield to the gentleman.

Mr. GEARHART. I do not want to be understood as having based any of my argument on that contention.

Mr. VOORHIS of California. I did not say the gentleman did that.

Mr. GEARHART. In other words, I want to insert in the RECORD at this point the statement that I do not believe anything we can do in this Legislative Hall is going to make decent people indecent or moral people immoral.

Mr. VOORHIS of California. I know the gentleman believes that, and I do not want it to be understood that I had reference to any argument that the gentleman was making; but I have certain arguments down here, and the gentleman does not care how I characterize them, I suppose.

Mr. GEARHART. I understand that, but I wanted to get that off my chest at this time.

Mr. VOORHIS of California. Furthermore, I believe that a little personal illustration will be pardoned by the House. I have once in my married life filed a separate return for tax purposes, and I have been ashamed of myself ever since. We went to California in 1928. This matter of filing separate returns never occurred to either my wife or myself during all the years of our married life, nor did any of my friends ever suggest that there was such a thing as a separate return, until I was elected to Congress with the prospect of the seemingly huge salary of $10,000, which I thought at that time was going to be something you could not possibly dispose of in a year, though I found out differently as I discovered what the demands of this office are.

Mr. FISH. Mr. Chairman, will the gentleman yield?

Mr. VOORHIS of California. In just a moment. In other words, my own personal experience illustrates the fact that what we are talking about today is the question whether we shall go on permitting people who are in the higher income brackets, by the use of division of income between husbands and their wives, to escape a certain amount of the tax burden, which, from the point of view of equity and economic justice ought to be paid by the family unit, since that family unit enjoys the income together. I yield to the gentleman from New York.

Mr. FISH. Is it not true that in the higher brackets they are so high that it cannot be divided up?

Mr. VOORHIS of California. Oh, when you come up to the bracket of millions of dollars of annual income, we reach the point of where the rates are supposed to be at the point of diminishing returns, and there are no higher rates above that point.

Mr. FISH. Suppose the law were this way; that it did not permit people to make joint returns; then it would be all right; but the law as it is permits people to make their choice as to whether they shall make a joint return or separate return. Why compel them to do this when the law says it can be done either way?

Mr. VOORHIS of California. The reason is the need of the Nation for this $323,000,000 of revenue, and that is the whole reason, so far as I am concerned. We realize that it is necessary for the Congress of the United States at this time to show some courage with regard to the levying of taxes. If we are going to do that, I think the most important principle that needs to be followed is the principle of making the tax burden fall with as great justice as possible, in accordance with equality of sacrifice, because the thing that will cause resentment is the feeling on the part of some people that they are not being treated as well as others are being treated, and, above all things, it is important that we should avoid that.

Once again, to speak about this matter of the protection of the family, I cannot see for the life of me the point some are trying to make that this is an attack on the institution of community property. I believe that every bit of property or income that belongs to me or that I earn belongs equally to my wife, or half of it to my wife, or, in a very real sense, all of it, for that matter, and I think that is the way the law of the land ought to be. But when our Government makes it possible for us to live together in this Nation and raise our children happily, and then when that Government comes to the necessity of raising considerable revenue by levying taxes on the people of the United States, and when we know that such income as we derive is used by us as a unit, I am sure we do not think we should kick if we are asked to pay taxes on that basis.

I believe, as a matter of actual fact, that it might be a very good thing for the institution of marriage if we remove the situation where a man can now say, if he should want to, that the fact that he has a wife is worth $100,000 to him in taxation. I just don't believe that marriage is that kind of a venture, that you can measure in dollars and cents. And if there are any young people with incomes in the $10,000 bracket—or even the $5,000 bracket—who can be dissuaded from getting married because, as it has been said, it will cost them some tax payments, then according to my own view of what marriage ought to mean they had probably better remain single.

Now, to state the matter briefly, we have to decide whether by requiring joint returns we are going to raise this $300,000,000 or whether instead of that it is going to be necessary to go to the people in the very lowest brackets of the income tax and levy the Treasury percentage of surtax that was proposed to the committee. Personally, I am glad the committee did what it did. I think the committee was right in this case in reducing the surtax in these lowest brackets to 5 percent. If it is possible to get along with the 5 percent on these $2,000-a-year people, I do not want it to go any higher. But I am inclined to believe from what

I know that these several million people will get the 11-percent surtax rate on the first bracket of taxable income unless this provision for joint returns by the few thousands stays in the bill. In other words, the choice is whether the people in the lower tax brackets will bear this burden or whether the people in the upper brackets shall bear it. That is what the choice means.

Now, I want to say a few words about some other features of the bill. The committee was good enough to hear me when they were having hearings on the bill and I delivered myself of some ideas about taxes which seem to me to be important.

There are certain principles of government and economic policy that must be considered in framing this or any other tax bill.

The first of these is it should be devised so as to prevent the accumulation of any great fortunes as a result of this national-defense program. For years we have promised this. Now is our opportunity to demonstrate our sincerity.

Second, that while every citizen should be called on to do his fair share, the burdens should fall in accordance with the principle of equality of sacrifice.

The third one—and which I believe is important from the revenue standpoint and from every other standpoint—is that certain obvious inequalities in present taxes should be corrected.

Fourth, is to arrange the tax bill in such manner as will be helpful in bringing about an orderly adjustment to peacetime industry, when the hopes for time of peace do return, without unemployment and depression.

These are the principles in the light of which all provisions ought to be considered. In connection with this bill we have heard the charge made that all the taxes of the country were being levied against about 5 percent of the people, and that all we were doing in this bill was making those people pay more.

Here is a chart that was made up by experts in the tax field which shows the proportion of income that is paid in taxes by the various income classes of the country. The first column is the people who get incomes under $500 a year. The second column is $500 to $1,000 a year. The third column is $1,000 to $1,500, and so on up until you get to the $5,000 to $10,000 and $10,000 to $15,000. The lightly shaded graphs indicate the proportion of income paid in taxes by these various income groups before the last tax bill was passed, and the cross-hatched sections indicate that same thing after that tax bill was passed.

If you will notice, it is true in the United States of America today that people with incomes of less than $500 pay as high a proportion of their income in taxes as people who derive up to $5,000 of income. The poor people, by percentage of income, are paying more than their share—not less. Why is that true? It is true because the direct taxes that everyone sees, income-tax schedules, estate and gift taxes, and such taxes are by no means the whole tax burden, and that the extent of sales taxes, excise taxes, and other taxes of that character are in the aggregate so great on the poor families' pocketbooks as to create a situation like this. Therefore, if the committee has seen fit in any instance to see that this situation is to some degree corrected, and the burden placed more nearly on the basis of equality of sacrifice, I stand with the committee in so doing. In this connection I believe frankly that more of the burden should have been put on estates than has been done, and that the gift-tax exemptions should have been reduced.

I think the committee was dead right in not at this time lowering the income-tax exemptions. I disagree with those who think the base should have been broadened again. The only excuse there could be for lowering those exemptions and bringing millions more people into the necessity of paying personal income taxes in addition to all other taxes that they pay, would be if we actually got into a situation where our country was indeed desperate for other sources of possible revenue, and we are not yet in that desperate condition. I think the committee is absolutely right about that.

Of course, members of the committee have already explained a great many of the things I would like to speak about, and which I shall not, therefore, take the time of the House to discuss. But one of the factors in this bill, one of the loopholes that now exists that ought to be eliminated just as much as we can is the advantage some have from holding tax-exempt securities. By using the surtax instead of the normal tax increase, of course a great proportion of the outstanding Government bonds which are exempt as to normal tax but not as to surtaxes, will be reached by this tax bill, which I think is right and fair.

Mr. REED of New York. There are $29,500,000,000 of those outstanding.

Mr. VOORHIS of California. I thank the gentleman very much. That is over half of the present outstanding public debt.

I wish, as I have said many times, that it had been possible to include the so-called Glass amendment. I believe that people who derive income from tax-exempt bonds ought to be required to include such income when computing their income taxes instead of completely disregarding such income when they figure their total income for tax purposes, as they can now do. That portion of their income would not be taxed, of course, but the effect would be that the tax they did pay on the rest of their income would be in the bracket where they belong. That is not in the bill today. I wish it were.

The CHAIRMAN. The time of the gentleman from California has expired.

Mr. DOUGHTON. Mr. Chairman, I yield the gentleman 5 additional minutes.

Mr. VOORHIS of California. I thank the gentleman from North Carolina.

With regard to corporation taxes and excess-profits taxes, I just want to say this. As a general matter, I believe that levying taxes on business for the purpose of raising revenue is an undesirable tax policy. I think we should derive revenue primarily from taxes on individuals, from estate and inheritance taxes as much as possible first; second, from incomes of individuals; third, from excess-profits taxes, which I believe at a time like this are very important. But, as to taxes on business as such, I think those taxes should be devised for other reasons than revenue. In other words, to accomplish the purpose that you want to accomplish, to equalize competitive disparities or control monopolies or something like that.

Now I come to the matter of small business. We face a situation in this country today where certain of the greatest corporations of the country are being greatly advantaged by the defense program, but where many of the smaller corporations are having a tough time of it. I would like to see that recognized more fully in tax legislation. I am told that the loss in revenue from the exemption of the very small businesses would not be serious, and I think socially it would be desirable in the greatest degree.

In connection with the excess-profits tax, I agree substantially with what the gentleman from Tennessee [Mr. COOPER] had to say the other day. One thing that I still cannot understand, although I have talked to some very good people about it, is why a formula could not be devised, if you still want to retain the average-earnings plan of computing the excess-profits credit. It seems to me it would be possible, perhaps on the basis of a careful review of capital structure which would have to be made first, to fix a ceiling above which the excess-profits-tax credit could not go for a corporation using the average-earnings plan.

At present there is not any such ceiling, so a corporation may have had earnings of any amount in the base period and still not begin to pay any excess-profits tax until those earnings are exceeded. There are individual corporations who may not have made more than 1-percent profit over the base period but there are others that made very high earnings indeed. I have shown these facts before in information I have previously placed in the RECORD. The present excess-profits tax operates to the advantage of some of the very largest corporations, who will not under this situation begin to pay excess-profits taxes until they get above, in one case that I think of, 25 percent and in another it is 43 percent. This is not right, I believe, nor fair to other corporations or other taxpayers. We should be able to devise an excess-profits tax that is more equitable. And from the standpoint of the present situation it is most important, if we are to prevent profiteering in connection with the defense program that we make the excess-profits tax as fair in its application and as effective all around as we possibly can.

Now, all of us have heard from the radio people and the billboard people to the effect that they do not believe the taxes imposed on them in this bill are fair. They say their competitors in the advertising business are not taxed. I believe they may have a point here, and I hope the committee, which alone can offer amendments under the rule, will consider the matter. I hope they will also

consider the problem with regard to reconditioned auto parts sold by garage people which, after all, ought not to be taxed as new manufactured goods.

I have some other ideas that I will not have time to expatiate on but I would like to make a few remarks regarding the long pull. For we have got to think about that now. I want to issue this warning: Some day this terrible international situation is going to be cleared up and peace restored. Some day there is going to come a time when the great cry is going to be "Now is the time to reduce taxes." I would like to say now, and I intend to say it over and over again, as long as I have breath, that when that time comes there are some right things and there are some wrong things to do. The problem then will be what to do to sustain the flow of consumer purchasing power at a time when governmental expenditures will have been greatly curtailed. The further problem will be to prevent the accumulation of huge idle savings in the hands of a few people.

What is the right thing to do about taxation when that time comes? The right thing to do would be immediately to repeal practically every consumption and excise tax on the books, and to reduce taxes on small business enterprise. The wrong thing to do would be to reduce income taxes or inheritance taxes in the higher brackets of the income tax. There is where you will get most of your pressure. But such a general policy as I have outlined would be of great benefit, in my judgment, in preventing a collapse such as we might otherwise face.

Mr. DOUGHTON. Mr. Chairman, I yield such time as he may desire to the gentleman from California [Mr. IZAC].

Mr. IZAC. Mr. Chairman, I have asked for this time in order to comment on the apparent injustice of two parts of this bill which may not yet have come to the attention of the House but which I am sure will prove very revealing on closer study.

Take, for instance, the tables on page 7 of the committee report. You will find there the surtax rate which, multiplied by the person's income, gives the surtax he will pay. Notice, please, the present rates and then in another column the rates proposed in this bill. Increases apparently almost all along the line, it is true, but the increases range from zero percent through hundreds of percent and on up to infinity. Now look further and you will find that the infinitely high increases are on the lowest taxable incomes, those up to $4,000, and the next highest increases come on the next to the lowest taxable incomes, where they range between 300- and 500-percent increase. Where do you suppose the increase falls most lightly under this new bill? Why, way up there in the quarter-million class, where it is 2 percent and in the million-and-up class where there is practically no increase: not 200 or 300 percent as for the six- or eight-thousand-dollar income but 2 percent and zero percent. Do not let anyone tell you this is a "soak the rich" tax bill. I am afraid it can in truth be entitled a "soak the little fellow" bill. Now, let us see in actual dollars and cents what these increased surtax rates amount to. From this same table prepared by the committee, I quote their own figures. The $6,000-income family last year paid a cumulative surtax of $80. So they have increased the take on that family 600 percent, or $480. Figures for the $8,000 family are $200 surtax last year and $780, or nearly 400-percent increase for this year under this bill. Now drop down and see if the bigger incomes are treated similarly. How about the $50,000 income? The new rates mean less than a 50-percent increase in the surtax from $11,780 to $17,320. And as we go higher the difference is less pronounced and the increase finally ceases altogether and leaves the extremely high brackets paying the same tax this year as last, although we are all agreed that the crisis confronting our country today is the very reason for this drastic tax bill.

To show the injustice of this policy, I want to express its results in yet another way. And, again, I use a table compiled by the committee; the one on page 8. If we are in a desperate situation and the lives and fortunes of every one of us are forfeit for the common defense, why should not each one of us be called upon for a similar contribution, similar as to the burden imposed and one's ability to carry it? Is there any similarity in the figures I quote or in the increased sacrifices demanded by this bill? Listen! The $2,000-income taxpayer will have $1,890 to live on after paying his tax this year. The $10,000 family will have $8,834 to live on. They had $9,472 last year, and if they filed separate returns it left about $9,680. In other words, this income family tightens its belt about a thousand dollars' worth more this year, or one-tenth of its total income more, than last year to help the common cause. The million-dollar-income family on the other hand had $282,417 on which to live last year and under the new bill will still have $263,481 on which to live after paying its income tax. There apparently is no emergency so far as this latter family is concerned.

Now in like manner the greatest burden due to the elimination of separate returns by husband and wife is in the same lower brackets. The percentage increase caused by the new surtax rates plus joint returns will be greatest on those families with incomes of $2,000 to $15,000 per year, and will mean an increased payment in many cases of from 300 to 500 percent over last year. Were everyone's increase the same I would have no complaint but the discrimination resulting from the proposed bill is obvious. I feel sure had the committee considered the rates from the angles I have just suggested they would have been inclined to more nearly equalize the burden among all income groups. It is natural, of course, that in a stupendous job of this kind some errors are bound to creep in. I do commend the committee on the patience and understanding displayed in trying to cover every conceivable approach to the problem of fair taxation. And the fact that I draw attention to only two phases of the proposed bill is a tacit admission on my part of my general agreement with the committee's views.

Now in this second complaint, and I will be brief, I draw to your attention the fact that in this bill we propose to tax two advertising media and exempt all their competitors. We propose to tax billboards and the radio, and we make the tax pretty stiff, and then we say nothing about newspapers, magazines, and other avenues of approach to the people. I have tried to view this from every angle but for the life of me I just cannot see the fairness of such a tax on one medium and not on another.

The average American is docile and long-suffering and he will go through hell fire if fairness or principle demands. I know he will shrink from nothing when he knows his country's welfare is at stake. You may treat him rough, you may deprive him, you may chastise him. But there is one thing you must do: Treat him the same as everyone else. Do not discriminate. Do not be unfair. Especially do not hit him a wallop and then say to his competitor "We whacked the other fellow but we are going to be nice to you."

I opposed the rule on this bill because it meant we could offer no amendments to correct the injustices I have endeavored in these few minutes to bring to the attention of the House. However, under this same rule the Ways and Means Committee itself has the power to bring in amendments, and I therefore trust that before we send this bill on its way to the Senate a further effort will be made to make the changes I have suggested in the interest of equal burdens for all and special privileges for none.

Mr. DOUGHTON. Mr. Chairman, I yield such time as he may desire to the gentleman from Colorado [Mr. TAYLOR].

Mr. TAYLOR. Mr. Chairman, today is a holiday in Colorado. On the 1st day of August 1876 President Grant issued a proclamation declaring the Territory of Colorado to thereafter be a State in the Union. The President's signature was attested by the Secretary of State, Hamilton Fish, the grandfather of our colleague by that name. That being the centennial year, our State became the Centennial State, and of this fact all we Coloradoans are very proud. On this sixty-fifth birthday of my home State I desire to extend my remarks in the RECORD in the nature of an analysis of the nondefense appropriations during the past and the present fiscal years. I shall endeavor to show that of the 12 general categories of nondefense appropriations, 7 are of such nature they cannot be cut, and that if we were to take the course which is being broadcast so vociferously of just cutting $1,000,000,000 off the nondefense appropriations it would represent 30 percent of everything that is not fixed charges. It would be utterly impractical. We cannot reduce the interest on the national debt. We cannot reduce pensions; we cannot reduce a great many fixed items. For this reason I feel that an analysis and definite statement of these nondefense appropriations would be instructive and I trust counteract a very erroneous impression.

Mr. DOUGHTON. Mr. Chairman, I yield such time as he may desire to the gentleman from Washington [Mr. SMITH].

MANDATORY JOINT RETURNS BY HUSBAND AND WIFE—UNJUST AND UNCONSTITUTIONAL

Mr. SMITH of Washington. Mr. Chairman, I desire to compliment the distinguished members of the Rules Committee and the Committee on Ways and Means for their fairness in bringing in a rule which permits a separate discussion and vote on the section in this measure requiring mandatory joint income-tax returns by husband and wife. I regret that owing to the fact the rule does not permit amendment of other sections in the bill which are also objectionable to many of my constituents, I felt impelled to vote against the rule. In the 9 years that I have had the honor to be a Member of this body I have never voted for a closed rule, which I consider to be contrary to the spirit of our democratic institutions. I have steadfastly held the view that all legislation coming before the House for consideration should be open to full, free, and independent discussion and action by the entire membership of the House the same as in the Senate. This tax revenue measure affects every home, every office, every factory, and every farm, and it will affect the lives of every man, woman, and child in America. It will be reflected in the cost of living and in the price of almost every necessity as well as the so-called luxuries. It is far too important a piece of legislation to be considered under a closed rule.

Mr. Chairman, the mandatory joint-return provision rendering it impossible for the wife to make a separate return is particularly obnoxious and unfair to residents of the State of Washington, whom I have the honor in part to represent. Our State is one of the nine States which have community property laws, under which the title is vested equally in each spouse, namely, to one-half of their property and to one-half of the income derived therefrom. This entire question has been thoroughly briefed by Hon. George Donworth, former Federal judge, of Seattle, Wash. Judge Donworth's paper was read at the Joint Conference of the Pacific Coast Institute of Law and Administration of Justice and Washington State Bar Association, July 27, 1935, and revised in June 1937. It is the most logical and cogent analysis of the subject which has ever come to my attention and to my mind it is unanswerable. Mr. Chairman, by permission of the House previously granted, and for the information of my colleagues who are interested in this vital question, which we all should be, I insert at this point in the RECORD the address referred to, and feel confident that all Members will find it very informative:

COMMUNITY PROPERTY INCOMES AND THEIR TAXATION

Mr. Chairman, ladies and gentlemen, in view of the provisions of the Federal Constitution relating to taxation of incomes, the authoritative decisions of the Supreme Court, and the historical development, the basis upon which the Federal Government may impose an income tax can hardly be said to be open to question. That the basis upon which such a tax is levied against any individual is the ownership of the income by that individual is an established constitutional doctrine. In the case of a community income the husband owns one-half of the income and the wife owns one-half.

In 1895, in *Pollock* v. *Farmers Loan & Trust Co.* (157 U. S. 429, 158 U. S. 601), the Supreme Court clearly enunciated the proposition that under the Constitution an income tax is a direct tax and that a tax on the income of real or personal property is a direct tax on the property producing such income. It necessarily resulted, as that Court declared, that under the then existing provisions of the Constitution such a tax could not be imposed unless apportioned among the several States in proportion to population.

The impracticability of levying an income tax in proportion to population led to the adoption of the sixteenth amendment, taking effect February 25, 1913. Under that amendment Congress has power "to lay and collect taxes on incomes from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration."

As the Supreme Court has since pointed out (*Eisner* v. *Macomber*, 252 U. S. 189; *Bromley* v. *McCaughn*, 280 U. S. 124), the sixteenth amendment did not extend the taxing power to new subjects, but merely removed the necessity which otherwise existed for an apportionment among the States of taxes laid on income. The Supreme Court said, in *Eisner* v. *Macomber* (which I call the Macomber case to distinguish it from the earlier case of *Towne* v. *Eisner*, 245 U. S. 418):

"A proper regard for its genesis as well as its very clear language requires also that this amendment shall not be extended by loose construction, so as to repeal or modify, except as applied to income, those provisions of the Constitution that require an apportionment according to population for direct taxes upon property, real and personal. This limitation still has an appropriate and important function and is not to be overridden by Congress or disregarded by the courts."

The word "incomes" being now in the Constitution, the definition of that word and its implications is a function of the Supreme Court. In exercising that function the Court has spoken in no uncertain language. In the Macomber case the Court said, in defining the meaning of the term:

"Here we have the essential matter: * * * a gain, a profit, something of exchangeable value proceeding from the property, severed from the capital, however invested or employed and coming in, being 'derived,' that is, received or drawn by the 'recipient' (the taxpayer) for his separate use, benefit, and disposal; that is, income derived from property. Nothing else answers the description."

Let it be noted that the parenthetical explanatory phrase "the taxpayer" is not my interpolation. It is the language of the Court. Income is something derived by the taxpayer.

The dissenting opinions in the Macomber case picture in clear relief the substantial holding of the Court. The dissenting opinion of Mr. Justice Holmes takes the ground that the word "incomes" in the sixteenth amendment was used, not in the sense announced in the majority opinion of the Court, but in a broader sense conforming to a supposed common understanding among the public. Nevertheless, the above quoted declaration as to the meaning and effect of the amendment has been expressly reaffirmed by the same Court and is the established law. In *Bromley* v. *McCaughn* (280 U. S. 124), the Court, in upholding the gift tax as an excise and referring to other cases where excise taxes of various kinds with reference to property had been upheld, said:

"It is true that in each of these cases the tax was imposed upon the assertion of one of the numerous rights of property, but each is clearly distinguishable from a tax which falls upon the owner merely because he is owner, regardless of the use or disposition made of his property."

In *Taft* v. *Bowers* (278 U. S. 470) the Court upheld the validity of the provisions in the Revenue Act of 1921 which required the donee of a gift to pay an income tax on the capital gain based on the cost of the gift to the donor. In the unanimous opinion, the Court said:

"Under former decisions here the settled doctrine is that the sixteenth amendment confers no power upon Congress to define and tax as income without apportionment something which theretofore could not have been properly regarded as income."

So, in *Home Savings Bank* v. *Des Moines* (205 U. S. 503)—not an income-tax case—the Court said:

"Taxes are assessed against persons upon the property which they own, not upon the property which others own. We should be reluctant to suppose that there has been any departure from this principle in this law."

It being established that an income tax can be assessed only against the owner of the income, the next point for consideration is: By what law is the ownership of income determined? It is determined by the same law as the ownership of any other class of property, namely, by the statutes and decisions of the State in which the property originates or has its situs.

There are 48 States in the Federal Union. In no 2 of the States are the statutes concerning property rights alike. In no 2 of the States are the laws concerning marriage and the property rights of married persons of identical tenor. There are 48 different systems by which property rights in general and the property rights resulting from the marriage relation are determined. The legislature in each of the 48 States is supreme in determining all such matters entirely without restraint so far as concerns the sixteenth amendment, which merely authorizes the imposition of Federal income taxes without apportionment. In fact, the States are subject to no restraint whatever in determining the property rights of their citizens not originating under a Federal law or treaty except that imposed by the fourteenth amendment which prohibits the deprivation of the property of any person without due process of law. Aside from the fourteenth amendment, (which certainly gives no added Federal power in connection with the imposition of income taxes), each of the 48 States is as free to determine for itself the results of the marriage relation as if it were an independent nation and the Federal Union had never been formed. There is no dissent on this point in the decisions of the Supreme Court.

In *Smith* v. *Alabama* (124 U. S. 465), the Court said:

"It has never been doubted but that this entire body and system of law, regulating in general the relative rights and duties of persons within the territorial jurisdictions of the State, without regard to their pursuits, is subject to change at the will of the legislature of each State, except as that will may be restrained by the Constitution of the United States. It is to this law that persons within the scope of its operation look for the definition of their rights and for the redress of wrongs committed upon them. It is the source of all those relative obligations and duties enforceable by law, the observance of which the State undertakes to enforce as its public policy. And it was in contemplation of the continued existence of this separate system of law in each State that the Constitution of the United States was framed and ordained with such legislative powers as are therein granted expressly or by reasonable implication."

This principle was well expressed by the Supreme Court of Washington in *Curry* v. *Wilson* (57 Wash. 509), where the Court said:

"The right of the State to fix the character of property acquired by its citizens and the terms under which it shall be holden, is a right of severeignty and a matter in which the Congress of the United States can have no concern."

In speaking of the power of the State to control and regulate property rights of married persons, the Supreme Court of the United States said, in *Neilson* v. *Kilgore* (145 U. S. 487):

"Marriage is a civil institution, a status, in reference to which Mr. Bishop has well said 'public interests overshadow private * * * one which public policy holds specially in the hands of the law for the public good, and over which the law presides in a manner not known in the other departments."

In *Ohio* v. *Agler* (280 U. S. 379), the Court said:

"It has been understood that the whole subject of the domestic relations of husband and wife, parent and child, belongs to the laws of the States and not to the laws of the United States. * * * In the absence of any prohibition in the Constitution or laws of the United States, it is for the State to decide how far it will go."

Similar declarations are made in *U. S.* v. *Hudson* (7 Cranch. 32).

The case of *Kansas* v. *Colorado* (206 U. S. 46), contains clear and excellent language pointing out how restricted are the powers of the Government of the United States when the attempt is made to trench upon local subjects of legislation.

It is well to bear in mind this observation made by the Court in the last cited case:

"One cardinal rule underlying all the relations of the States to each other is that of equality of right. Each State stands on the same level with all the rest. It can impose its own legislation on no one of the others, and is bound to yield its own views to none."

In 8 States of the Union, including Washington, the property rights of married persons are governed by a statutory relation generally known as the community system. The form of the community system differs in each of the 8 States, but in all of them the marriage relation results in a species of partnership between husband and wife. In the other 40 States there is no community system. Nevertheless it would be distinctly erroneous to refer to these 40 States as "common law States."

The rules of the common law relating to the property rights of husband and wife were barbarous rules. Every one of the 40 States that inherited those rules has materially changed them, and further statutory changes are constantly taking place. Uninformed persons not familiar with the community-property system and its underlying reasons gratuitously assume that that system was devised and put in force by 8 States for the purpose of reducing the Federal income taxes payable by their citizens. Nothing could be further from the truth. With the exception of California, which in 1927 amended its community-property statute (this amendment being more in the nature of the filling of a hiatus in the law than the adoption of a new system), all the community-property States have retained their system without amendment since sometime in the last century. All of these 8 States chose that method of regulating the property rights of married persons because they considered it the most just system. They adopted it long before the sixteenth amendment was proposed or thought of.

Not only for many years before 1913, but during the period since that date, the amendments to the community-property laws of those States have been few and minor. It is a safe assumption that the 40 noncommunity-property States have in the past 50 years more often and more materially changed the laws relating to the property rights of married persons than have the community-property States. They are progressing away in varying degrees from the barbarity of the common-law rules governing this subject. While they are to be congratulated on this progressive approach to marital justice, we may express the hope that they will not be led into any "holier than thou" or "more in the fashion than thou" attitude toward the well-tried and steadier system of community property. The community system is not aware of any inferiority complex. Those who, living elsewhere, read about it and register their disapproval without having experienced its workings, seem to regard it (quoting, I believe, Christopher Morley) "like a thoroughbred bulldog, ugly enough to be attractive."

It is sometimes said by those who would attempt to change the present method of taxing community incomes that the application of the income-tax law to citizens living under community-property laws results in inequality. The fact is that the application of the Federal income-tax law to the property systems of all the States results in some inequality. As no two States have the same local laws of property, a Federal law uniform in its terms throughout the country necessarily produces different results in operating upon different local systems. This has frequently been recognized as one of the necessary results of our Federal Union.

As the Supreme Court pointed out in *Florida* v. *Mellon* (273 U. S. 12), differences of State law which may bring a person within or without the category designated by Congress as taxable may not be read into the revenue acts to spell out a lack of uniformity.

The product of a constant and a variable is of course a variable. The only way to produce a uniform result in the application of a Federal income-tax law is to enact a constitutional amendment which would transfer to the Federal Government the power to fix and regulate the property rights of married persons. No one, I hope, is suggesting that course. Such inequality as results from the application of the Federal law to the diverse property systems of the 48 States is a part of the price we pay for our Federal Union. The results of this inequality have been much exaggerated by the opponents of the community-property system. In every one of the 40 noncommunity States, husbands transfer income-producing property to their wives and thus divide an income which otherwise would belong solely to the husband. They make use of many other methods, lawful under their respective State laws, for effecting transfers of income. They voluntarily do what the citizens of the State of Washington are compelled to do and cannot avoid doing, namely, they vest in their wives the ownership of a part of their accumulations received after marriage.

The sun shining from the heavens shines uniformly upon all things. Where it shines upon 48 different objects, there cannot be 48 shadows of the same length and form unless the objects are of the same height and size. Though the sun shines with uniformity, men know that diversity in their created structures is inevitable.

Such inequality as results from the application of a Federal law to situations arising from the varying laws in the 48 States was bargained for and agreed upon at Philadelphia in 1787, where a division of powers between Federal and State sovereignties and jurisdictions was made a basic principle of the Constitution. The same freedom of State legislation was bargained for again and agreed upon again when the sixteenth amendment was adopted. By that amendment the people of the United States constitutionally decreed that Congress may lay and collect taxes on incomes from whatever source derived, but they conferred no power upon Congress to regulate property rights or the results of the marital status in the several States. It is obvious that in 1913 and prior years when the sixteenth amendment was under consideration and was adopted, everyone knew what is known now, namely, that questions concerning the general ownership of property producing income in each of the several States must be determined by the laws of that State. Then as now the community property system was in force in 8 States. It was a time-honored system. Its basic principles were well known. From the beginning of statehood each of these States had established and maintained the system because its citizens believed it to be the most just method of defining the property rights of husband and wife.

When the power was thus conferred upon Congress to tax incomes without apportionment, the community-property system was taken into consideration fully as much as was any other of the numerous and varying statutory systems for regulating the rights of married persons existing in any of the States. There was no uniformity anywhere. The whole matter of ownership was left to the local determination of the States, as it had been in 1787 and has been ever since.

The suggestion has been made from time to time that Congress should amend the income-tax statutes so as to hit in some way the community-property system. Various devices have been suggested for this hitting. One device suggested has been that Congress should by statute declare that management and control by the husband are considered equivalent to ownership. This reminds me of a conundrum that made the rounds among schoolboys years ago: "How many legs would a dog have if you considered his tail one?" The answer was, "He would have four, because considering it one would not make it one."

It does not require much consideration to discern the invalidity, if not the absurdity, of this suggested device. Time and again it has been decided by the courts, State and Federal, that the husband's power of management and control is no more than a statutory power of attorney, the equivalent of an irrevocable power of attorney which a wife may give to her husband, or vice versa, in any of the States. Washington decisions embodying this conclusion are numerous. Some of them are:

Schramm v. *Steele* (97 Wash. 309); *Olive Co.* v. *Meek* (103 Wash. 467); *Marston* v. *Rue* (92 Wash. 129); *Stewart* v. *Bank of Endicott* (82 Wash. 106); *Bortle* v. *Osborne* (155 Wash. 585); *Huyvaerts* v. *Roedtz* (105 Wash. 657).

To quote at length from these decisions would unduly extend this paper. Time and again the Supreme Court of Washington has decided that the community property, real and personal, is actually owned by two persons, namely, by the husband and by the wife, and that this ownership is an actual legal title vested equally in each spouse.

Schramm v. *Steele* (97 Wash. 309), may be taken as typical. In that case the court said:

"The same circumstances, all of them and no others, which make real estate community property make personalty community property. The two kinds of property are impressed with the community character by the same facts and by force of the same words in the same defining statute. All property, whether real or personal, property and pecuniary rights without exception, acquired after marriage by either husband or wife, or both, otherwise than by gift, bequest, devise or descent, is community property. * * * The provision of the statute entrusting the husband with the management and control of community personal property * * * except he shall not devise by will more than one-half thereof (Rem. C., sec. 5917), must be construed in the light of this dominant fact of ownership. The property referred to is community property; that is, property belonging to the community. The husband is made, by the

statute, the manager, not the owner * * *. To hold that the whole substance of the term 'community property' as applied to personalty consists in a mere contingent expectancy of the wife, would make of the term 'community personal property' a palpable misnomer. It would take away every community element except that the wife's labors and sacrifices had helped to earn it. It would destroy that equality which it is the obvious purpose of our community property law to conserve. * * * The words of the statute are generally no broader than those often employed in general powers of attorney for the management and disposition of personal property; but we have yet to learn of a case in which such a power, however broad, was held to destroy the estate of the donor of the power and subject the property to the personal debts of the attorney in fact."

Many other Washington decisions are equally clear and emphatic in upholding the equal title and ownership of the two spouses in the community property, real and personal, neither having a superior title or interest to the other.

In *Marston* v. *Ruc* (92 Wash. 129), the court used language to the effect that under the Washington statute the community property, real and personal, is just as much the wife's as the husband's.

Kaufmann v. *Perkins* (114 Wash. 40), and numerous other cases hold that, as to real estate, conveyances, and agreements for conveyances and leases made by the husband alone are void, even as against the husband.

A voluntary conveyance of a half interest made to a wife by a husband in New York can have no greater effect. Yet no attempt is made to tax the New York husband for the entire income after making such a conveyance. Even the gift tax gives him liberal exemptions, especially if made by annual gifts of $5,000 each.

The Supreme Court of the United States has considered and sustained the provisions of State community-property statutes in a variety of cases among which are *Arnett* v. *Read* (220 U. S. 311), *Warburton* v. *White* (176 U. S. 484), *Buchser* v. *Buchser* (231 U. S. 157). I discuss later two of these cases which decisively bear on our present subject.

Those who advocate the insertion in the Federal income-tax statute of a declaration that management and control by the husband with respect to community property shall be the basis of the Federal income tax are not really content to declare management and control the equivalent of ownership; they really propose to make management and control superior to ownership and to predominate over ownership as the basis of the Federal tax. There is no doubt where the ownership lies; hence, they wish to depart from ownership and base the tax solely on management and control. But they propose this only in the case of community property. That means, in effect, that they propose this rule for eight States only. They do not suggest that management and control by the husband be given a like effect in the non-community-property States.

We may note in passing, the injustice of following a State community-property statute only to the point of joining the earnings of a husband and wife in a common fund and then departing from that statute insofar as it fixes the ownership in the two spouses equally of the fund thus created. This injustice and the constitutional difficulties involved are frankly recognized by some writers on the subject. They suggest, therefore, with more justice a uniform system of taxing family incomes throughout the United States, disregarding practically in their entirety all State statutory provisions defining the property rights of married persons.

The Supreme Court of the United States has decided in *Arnett* v. *Read* (220 U. S. 311) and *Warburton* v. *White* (176 U. S. 484) that the wife's vested interest in community assets in States having the community system is property in the constitutional sense, and that it cannot be taken away from her without compensation, by reason of the fourteenth amendment. That Court has equally decided in *Warburton* v. *White* that the management and control given by statute to the husband can be taken away without compensation despite the fourteenth amendment, because it is not a property right vested in the husband but a mere statutory agency subject to change whenever the legislature so wishes. The proponents, therefore, of the management and control device seriously propose to base an income tax upon something which the Supreme Court has held is not property and is not protected by the fourteenth amendment, namely, the right of management and control. And they equally propose to disregard something which the Supreme Court has said is property and cannot be taken away without compensation, namely, the wife's statutory ownership of her one-half interest. What chance there is of the upholding of such a device as a constitutional Federal enactment may be readily conjectured. It seems not too much to say that any proposition of departing from the trail well blazed by the Supreme Court, the trail of ownership, leads into a hopeless morass of tangled substitutes. Let it be noted that in this paper when I speak of the Supreme Court, without other designation, I mean the Supreme Court of the United States.

We hear it said that the Supreme Court has upheld the imposition of an income tax on one who is not the owner. An analysis of the cases cited as sustaining that proposition will show, I think, that they do not in fact support it. In all those cases it will be found that the person, not the owner, against whom the Supreme Court has held that a Federal income tax may lawfully be imposed was one who had been the owner and had not entirely divested himself of that ownership. Of course, there are numerous cases in the books holding that a status once established for taxing purposes retains its efficacy until completely changed. A partial change does not prevent the exercise of the taxing power against one originally taxable.

I am reminded that I once lived in the town of Machias in Maine. There was a citizen of our town who was going to change his residence to Cherryfield. He said: "I will beat the town of Machias and the other towns out of 1 year's taxes." The towns in Maine have jurisdiction to do the assessing and the taxing, and by statute they assess and tax property to the owner in the town where he resides on the 1st day of April.

So on March 31, John Doe, of Machias, arranging to remove from that town, packed up his household goods, having already sold out everything he did not want to take, and, with his family, drove 15 miles on the way of Cherryfield. He arrived at the town of Jonesport in the afternoon of March 31.

He spent the night of March 31 and the day and night of April 1 in Jonesport. He left Jonesport about 10 o'clock on the 2d of April, arriving a few hours later at the town of Cherryfield, where he took up his permanent abode.

He said: "I cannot be taxed in Machias because I left there for good on March 31; they won't think of taxing me in Jonesport, because I was only passing through there on April 1. As far as Cherryfield is concerned, I was not living there until the 2d of April."

His plan failed. They taxed him in Machias, and the tax was upheld. The court said that for taxation purposes a status once acquired continued until it was completely changed. A partial change was not recognized. His status on April 1 was that of a resident of Machias, because he had not yet acquired any other status. That is the substantial principle that I find applied in the cases where a person, no longer the complete owner, is held to be subject to an income tax.

Why is it that in all of these cases the decision upholding the tax pursues the point of an interest retained by the grantor, the former owner? It is because the income tax is assessed against the owner and the courts refuse to recognize an incomplete change of ownership. The cases cited under this head are: *Reineke* v. *Smith* (289 U. S. 172); *Burnet* v. *Wells* (289 U. S. 670); *Burnet* v. *Leininger* (285 U. S. 136), a partnership case where *Hoeper* v. *Tax Commission of Wisconsin*, cited below, is distinguished but left unquestioned. All of these are grantor cases where a tax was upheld against a grantor who had not completely parted with the title. There is an excellent comment on *Burnet* v. *Leininger* in *Lowery* v. *Helvering* (70 Fed. (2d) 713).

It has been suggested that *Burnet* v. *Wells* (289 U. S. 670), cited above, has a broader implication than I have indicated. I do not think so. In that case, by a 5-to-4 decision, the Court sustained an income tax against a grantor, who, in creating a trust, directed that a part of the income should be applied to the payment of premiums thereafter accruing on life-insurance policies taken out by the grantor before the creation of the trust, on his own life for the benefit of two women considered by the court to be members of his family, an expenditure which the majority opinion speaks of as being "a common item in the family budget." All nine of the justices recognized that a remaining interest in the grantor was necessary in order to uphold the assessment of an income tax against him, and that he could be taxed only for so much of the income as represented that interest. It was tacitly assumed by all that the validity, construction, and effect of the instrument creating the trust were to be judged by State laws. State laws also controlled as to the construction of the life-insurance policies. Congress had enacted a special provision in the Revenue Act directing that

"Where any part of the income of a trust is or may be applied to the payment of premiums upon policies on the life of the grantor * * * such part of the income of the trust shall be included in computing the net income of the grantor."

Five Justices held the statute to be constitutional because the grantor had a continuing interest in the policies. They were at much pains to point out that it was a grantor who was taxed, and that his continuing interest was substantial.

Mr. Justice Cardozo, speaking for the majority, said:

"If the insurer without cause were to repudiate the policies, the insured [the grantor], would have such an interest in the preservation of the contracts that he might maintain a suit in equity to declare them still in being (citing authorities). The contracts remain his, or his at least in part, though the fruits when they are gathered are to go to someone else."

The outstanding fact is that the Court in the majority opinion upholds the constitutionality of the assessment of the tax only because of the continued interest of the grantor who first took out the policies and later created the trust.

In effect, all the grantor cases are distinguished from the community property cases by the court itself in the *Seaborn Case* (282 U. S. 101), cited below. There, as shown in the passage of the opinion hereinafter quoted, the Court pointed out the difference between the situation of a grantor technically parting with the title, while, in fact, retaining ownership with its incidents in whole or in part, and the situation of the husband under the community property system where "the husband never has ownership."

The leading case of *Poe* v. *Seaborn* (282 U. S. 101) and the companion cases (the income-tax cases dealing with community property), decided in 1930, make it clear that ownership of the income is the basis of the assessment of income taxes under the sixteenth amendment and that that ownership is determined by the local State laws. That case involved the community-property law of Washington and held the husband not liable for a Federal income tax assessed against him by the commissioner on the entire community income. The decision is rested definitely on the ground that only one-half of the community income belonged to Seaborn, the other half being his wife's. In decisions rendered the same day a like ruling was made as to community incomes in Texas, Louisiana, and Arizona (*Hopkins* v. *Bacon* (282 U. S. 122); *Bender* v. *Pfaff* (282 U. S. 127); *Goodell* v. *Koch* (282 U. S. 118)).

The three cases last cited and Poe against Seaborn were test cases. The Government there strongly asserted the theory that the husband's management and control of community property is the equivalent of ownership and that to hold the contrary would involve an unfair discrimination against the taxpayers in the 40 States having other systems. These contentions were fully considered by the Court and were overruled. The question must, therefore, be regarded as set at rest by these four cases, especially when they are read in connection with the later cases of *Hoeper* v. *Tax Commission of Wisconsin* (284 U. S. 206), and *Heiner* v. *Donnan* (285 U. S. 312), hereinafter discussed.

For 15 years the practice of the Department has been in accordance with this principle. In April 1920 United States Internal Revenue Commissioner's office decision No. 426 (2 C. B. 198) gave specific recognition to the community-property laws of Texas and Washington, and upheld the propriety of returns dividing the community income equally between the husband and wife. Later in the same year, by opinion of Attorney General Palmer, the ruling was extended to all of the community-property States except California, where the local State courts had held that under the then existing statutes the wife had no vested interest in the community property or income. In February 1921 the second opinion of Attorney General Palmer (32 Ops. Atty's. Gen. 435), considered the subject exhaustively and adhered to the ruling already announced. There has since been no departure from it. Various attempts have been made to persuade Congress to amend the income-tax law by the insertion of language by which the advocates of a change hoped that this established practice might be overborne. Both Houses of Congress have turned deaf ears to these proposals.

The holdings of the Supreme Court may be synopsized, I think, by stating that in no case has that Court held any person liable for a Federal income tax unless he was the owner or had been the owner of the income or the property producing it and had parted with an interest less than the entire interest, thus retaining a substantial interest in himself. In the *Seaborn case* (282 U. S. 101), the Court, speaking of *Corliss* v. *Bowers* (281 U. S. 376) (a case cited to the Court as having a contrary import), expressed itself as follows:

"We held that where a donor retains the power at any time to revest himself with the principal of the gift Congress may declare that he still owns the income. While he has technically parted with title, yet he in fact retains ownership with all of its incidents. But here [in the Seaborn case construing the community property law of the State of Washington] the husband never has ownership. That is in the community at the moment of acquisition."

The case of *Hoeper* v. *Tax Commission of Wisconsin* (284 U. S. 206) establishes the proposition that an income tax assessed against a husband cannot be increased by reason or the fact that his wife receives an income which she owns. That case, like others decided by the Supreme Court, denies the asserted power to add together two incomes owned by the husband and wife and to tax them as one income to the husband. It holds that the Constitution is violated as to the fourteenth amendment when a State attempts to tax a husband for propery or income which under the State law belongs to his wife.

In *Heiner* v. *Donnan* (285 U. S. 312) the Court states that a course of action prohibited to the States by the fourteenth amendment is prohibited to the Federal Government by the fifth amendment. It is held, applying this principle, that a Federal statute is unconstitutional which creates a conclusive presumption that gifts made within 2 years prior to the donor's death were made in contemplation of death. The Court says that the conditions stated in the opinion "show that to impose liability for the tax as a gift tax upon the estate, as they in terms require, is, in effect, to exact tribute from the gains or property of one measured by the gains or property of another." This holding and this language are pertinent when it is proposed to add together and tax to the husband in the higher bracket two incomes which under State law belong to two persons, namely, one to the husband and one to the wife. The proposal becomes obviously more unwarranted and unjust when the husband has also a separate income, since in that case it is proposed to add the two community incomes to the separate income of the husband and to subject the husband to a higher rate of tax and surtax as a consequence.

Nor can the supporters of the proposed innovation find consolation in the opinion of the dissenting judges in the Hoeper case. That being the case of a Wisconsin State tax, the tax was imposed by the same legislative authority which had established the property relations of husbands and wives and had changed the common law of the State of Wisconsin in that respect. The dissenting judges pointed out that Wisconsin, if it so desired, could have restored the common law and in that way could have vested the entire ownership of the wife's property in the husband. In their view it followed that the Wisconsin statute there in question could be treated as a reenactment of the common-law property rights of husband and wife, insofar as the State income tax was concerned. That is the only ground that the dissenters appear to have found for questioning the validity of the majority decision.

In the case of a Federal income tax on incomes owned by husbands and wives, no such considerations exist. United States statutes cannot change the relations or the property rights of husbands and wives in any State. The United States cannot reenact the common law as to property rights between husbands and wives in any State. The Hoeper case is emphatic and is in line with the other cases cited which declare that there is a constitutional barrier to the enactment of a Federal law which would join together and tax as a unit incomes which, under State law, are owned by the husband and by the wife.

So far as concerns inheritance and estate taxes, little need be added. It necessarily follows from the provisions of the Washington statutes and decisions that the wife's interest in community property is a continuing interest existing during marriage and thereafter, and that in case of the husband's death the wife in no sense inherits her one-half interest in the community property from the deceased spouse. In the converse case, equally, the husband is not an inheritor of his one-half, but is a continuing owner both before and after the wife's death. The long-established practice of the Inheritance Tax Department of the State of Washington in this regard is too well known to justify further comment.

The Federal Government has uniformly adhered to the same method in valuing and taxing the estates of deceased married persons. The rule was made clear by Internal Revenue General Counsel's Memorandum No. 7773 (August 1930) in which reference is made to the decisions of the United States District Court for the Northern District of Texas in the Vincent and Underwood cases. In those cases the decisions of the court were oral and consequently unreported. In the General Counsel's Memorandum No. 7773 it is said:

"In view of the court's decision in the Vincent and Underwood cases which are applicable to the instant case, it is the opinion of this office that the value of B's interest in the community property is not a part of A's gross estate within the purview of section 302 (a) of the Revenue Act of 1926, notwithstanding the fact that she elected to take under the will."

The general principle stated in the cited memorandum had been enunciated in department rulings long previously. The only question raised in 1930, and on which the General Counsel's opinion was sought, was whether a different rule applied where, by reason of testamentary provisions, an election by the wife was required.

In referring to the two decisions just mentioned, the memorandum says:

"In each of those cases the Court held without written opinion that the interest of the wife in the community estate was not a part of her deceased husband's gross estate. The Government did not appeal from those decisions."

I believe no question has been suggested as to the propriety of this long-established practice in the application of the laws governing the Federal and State estate and inheritance taxes.

GEORGE DONWORTH.

NOTE 1. In *Blair* v. *Commissioner of Internal Revenue* (— U. S.), decided February 1, 1937, the unanimous opinion of the Court cites twice with approval *Poe* v. *Seaborn* (282 U. S. 101) in support of the proposition that the decisions of the State courts are final as to property rights and that Federal income-tax liability attaches to ownership of the income as defined by State laws.

NOTE 2. While for obvious reasons the State statutes and decisions cited in the foregoing paper are those of the State of Washington, it follows under the decisions of the Supreme Court of the United States therein discussed that the conclusion reached is equally applicable to community incomes received by residents of the other seven States where the community-property system is in force.

On February 19, 1934, our former colleague, Hon. Morgan G. Sanders, of Texas, delivered a speech in the House in which he discussed the subject of income-tax returns on community property at great length and quoted copiously from discussions by the United States Supreme Court. I feel that it should be read by every Member of the House before voting on this important legislation. By leave previously obtained, I insert the speech by former Congressman Sanders at this point:

INCOME RETURNS ON COMMUNITY PROPERTY

(Speech of Hon. Morgan G. Sanders, of Texas, in the House of Representatives, Monday, February 19, 1934)

Mr. SANDERS. Mr. Chairman, I had not intended to make any remarks on the present bill; but in view of the fact that some Members of the House have criticized in their

speeches the action of the Committee on Ways and Means, by reason of the fact that the community-tax proposition was left out of the bill, I deem it proper to defend the committee by stating certain facts.

One of the most ardent critics has been the gentleman from Kentucky [Mr. Brown]. The Ways and Means Committee has been in session since December 4 last; and if the gentleman from Kentucky [Mr. Brown] had any information on the subject, I submit that in all fairness it was his duty to come before the committee and give the committee the benefit of his knowledge on this subject. He did not do so, but contented himself until the bill came before the House, and then made a speech in which he talked about "Horse sense and stable thinking." The supposition on the part of some folks that community property States are enjoying special privileges has been current for some time, and this particular subject I will deal with hereafter, but first permit me to give you a little history in regard to the origin of community property law, given by Mr. Lewis in his dissenting report:

"While the community systems of the eight community-property States in their varying forms came from the Spanish and French, the origin was in the communal forms of Germanic law. The Goths brought the institution of marital community into southwestern France and Spain, and in the latter country it became the law of the land under a Gothic conqueror. In France, however, it remained in the southwest Provinces until adopted in the Code Napoleon. Community-property law was brought to the New World of Spanish dominion, but in Louisiana an earlier Spanish law had later superimposed upon it the provisions of the Code Napoleon. The Texas law, though primarily from the Spanish, also shows traces of French influence. The States of California, Nevada, New Mexico, and Arizona came into their community-property laws by direct influence during Colonial times, as did Texas and Louisiana. Washington and Idaho, however, adopted their laws from the older States."

This question of community-property taxation was considered in the Seventy-first Congress when Mr. Hawley was chairman of the Ways and Means Committee. Mr. Hawley presented House Joint Resolution 340, which was to extend the time for the assessment, refund, and credit of income taxes for 1927 and 1928, in the case of married individuals having community income. The resolution was read and is of record on page 9963 of the RECORD of the Seventy-first Congress, second session. Mr. Hawley advocated the passage of the resolution. Mr. Garner, now Vice President of the United States, was at that time a member of the Ways and Means Committee. Mr. Garner made this statement:

"I happen to represent, in part, one of the States involved in this transaction, probably the largest taxpaying State of the seven. In 1927, when we passed the internal revenue act, there was quite a contest, and you will recall section 1212, in which we undertook to settle the back taxes of these community estates. There was some objection to it, and we finally compromised by an agreement, in substance, between the Treasury Department and the representatives of these five or seven States—Texas, Louisiana, Oregon, Washington, and other Western States. We entered into an agreement that we would take the cases from these various States into the Federal courts and on through to the Supreme Court as quickly as possible to determine the legal question involved. Suits were instituted. I have in mind particularly the one that was instituted in Texas at Fort Worth. The court held that in Texas they had the right to make a separate return; that is, Mrs. Garner and myself, for instance, had the right to make a separate return under the Constitution. The Government appealed the case, and it went to the Fifth Circuit Court of Appeals, and the court there sustained the district court. It is now pending in the Supreme Court and is set down for argument on October 20 of this year. The statute of limitations will begin to run against the Government in favor of the people of Texas on March 15 next for 1927, because we had a 3-year limitation then, and on March 15, as to 1928, because we have now only a 2-year limitation. So we must either pass this bill, or the Treasury Department will be compelled to notify every taxpayer in all these seven States by one of their 60-day letters that these taxes are due for 1927 and 1928, and they will have to do this about the 1st of next January or February."

Then Mr. Chindblom, a Republican, and one of the ablest Members of the House and an able and outstanding member of the Ways and Means Committee at that time, made this statement:

"I want to say that this case is exceptional and different from the large mass of cases in which we are very often requested to waive or extend the statute of limitations. This is a case where the rights of citizens under the laws of the States are involved; where the Federal Government sets up one claim and the citizens of five States set up other claims based upon their own constitutions and, in addition, when the matter was before the committee, it was understood, and it has been understood all the time subsequently that the eventual determination of the matter would depend upon the conclusion of the suits pending in the Supreme Court of the United States."

Let me applaud the statement of the gentleman from Illinois, Mr. Chindblom, who said that it was a matter where the rights "of the citizens under the laws of the States are involved."

The resolution was agreed to, and the community-property States kept faith with the promise to have this matter tested in the courts of our country. The case to which Mr. Garner referred was that of Hopkins, collector of internal revenue, against Bacon, which decision was rendered on November 24, 1930, and which is to be found in volume 282, page 122, of the Reports of the Supreme Court of the United States. Before giving you this decision in full, I want to call your attention to the fact that in that decision the Court held:

"The interest of a wife in community property in the State of Texas is properly characterized as a present vested interest, equal and equivalent to that of her hunband; and under sections 210 (a) and 211 (a) of the Revenue Act of 1926, she and her husband are entitled to make separate returns each of one half of the community income."

I now give you the opinion of the Supreme Court of the United States on that case in full:

"This case comes here on writ of certiorari to the Circuit Court of Appeals for the Fifth Circuit. It involves the same questions with respect to community income under Texas law as are involved in *Poe* v. *Seaborn*, ante, page 101, and *Godell* v. *Koch*, ante, page 118, under the law of Arizona and Washington.

"Respondent was assessed additional income tax for 1927 because he and his wife had made separate returns and had each returned one-half of the community income, whereas the Commissioner of Internal Revenue asserted that the respondent must return the whole thereof. Respondent paid under protest, brought suit in the District Court (27 Fed. (2d) 140), and recovered judgment. The collector appealed and the Circuit Court of Appeals affirmed the judgment (38 Fed. (2) 651).

"In view of our decision in *Poe* v. *Seaborn*, supra, the only matter to be examined here is whether under the community property system of Texas the wife has a mere expectancy, as she would under the law of California (cf. *United States* v. *Robbins*, 269 U. S. 315), or on the contrary has a proprietary vested interest in the community property such as makes her an owner of one-half of the community income.

"The statutes contain sweeping provisions as to what shall be included in community property. They provide that each spouse shall have testamentary power over his or her respective interest in the community property. In the event of failure to exercise such testamentary power they provide that the property shall go in the first instance to the descend nts of the deceased spouse. They provide, as is usual in the States having the community system, that the husband shall have power of management and control such that he may deal with community property very much as if it were his own. In spite of this, however, it is settled that in Texas the wife has a present vested interest in such property (*Arnold* v. *Leonard*, 114 Tex. 535). Her interest is said to be equal to the husband's (*Wright* v. *Hays' Administrator*, 10 Tex. 130). It is held that the spouse's rights of property in the effects of the community are perfectly equivalent to each other (*Arnold* v. *Leonard*, *supra*). These expressions as to the wife's interest are confirmed by the authorities holding that if the husband as agent of the community, acts in fraud of the wife's rights, she is not without remedy in the courts (*Stramler* v. *Coe*, 15 Tex. 211; *Martin* v. *Moran*, 32 S. W. 904; *Watson* v. *Harris*, 130 S. W. 237; *Davis* v. *Davis*, 186 S. W. 775).

"The applicable statutory provisions are noted in the margin.

"In view of what has been said in *Poe* v. *Seaborn*, supra, it remains only to say that the interest of a wife in community property in Texas is properly characterized as a present vested interest, equal and equivalent to that of her husband, and that one half of the community income is therefore income of the wife. She and her husband are entitled to make separate returns, each of one-half of such income. The judgment of the circuit court of appeals is affirmed."

When we were having hearings before the Ways and Means Committee on the revenue bill, Mr. Evans, of California, a member of the Ways and Means Committee, made the following statement and submitted the following decision:

"I shall not repeat the authorities submitted by Mr. HILL of Washington and Mr. Sanders, of Texas, members of the committee. There is, however, one other United States Supreme Court decision arising from a case coming from the State of California, and that is the case of the *United States* v. *Malcolm* (282 U. S. 792).

"In that case it will be noted that the Supreme Court stated that under the Revenue Act of 1928 the husband and wife, domiciled in California, must make separate returns on income derived from community property.

"I desire to submit the following quotation from that decision:

"'UNITED STATES *v.* MALCOLM (282 U. S. 792)

"'Robert K. Malcolm and Esther Jarret Malcolm are husband and wife and citizens of the United States. Since October 1, 1920, they have continuously maintained their domicile in the State of California. During the year 1928 Robert Malcolm received a salary of $3,600 for personal services rendered as an officer of the Liberty Farms Co., a California corporation. Under the laws of the State of California this income was community property. On March 1, 1929, the husband and wife filed separate returns of their income for Federal income-tax purposes. Each reported one-half of the salary of $3,600 received in 1928 by the husband, and each fully paid the amount shown to be due on the return. It is admitted that all income taxes due from either husband or wife for the year 1928 have been fully paid, if, as a matter of law, they had a lawful right to

make such separate returns under the provisions of paragraphs 11, 12, and 51 of the Revenue Act of 1928.

" 'After the husband had filed his income-tax return for the calendar year 1928, as set out above, the Commissioner, upon an audit and examination, determined that his return was incorrect in that the salary of $3,600 should have been reported by the husband alone, and an income tax paid thereon by him, instead of both husband and wife reporting it at $1,800 on each return. Accordingly the Commissioner determined against the husband a deficiency in income tax amounting to $11.39. An assessment in this amount was then made and collected from the husband, the plaintiff herein, together with interest amounting to $1.12. A claim for refund was thereafter filed and rejected by the Commissioner. From a judgment for this amount in plaintiff's favor the defendant has appealed.

" 'The questions certified were as follows:

" '1. Under the applicable provisions of the Revenue Act of 1928 must the entire community income of a husband and wife domiciled in California be returned and the income tax thereon be paid by the husband?

" '2. Has the wife, under paragraph 161 (a) of the Civil Code of California, such an interest in the community income that she should separately report and pay tax on one-half of such income?'

"Per curiam: The first question certified is answer: No. The second question is answered: Yes (*Poe* v. *Seaborn,* ante, p. 101; *Goodell* v. *Koch,* ante, p. 118; *Hopkins* v. *Bacon,* ante, p. 122)."

I wish to call your attention to the case of Poe against Seaborn, Two Hundred and Eighty-second United States Reports, beginning on page 101. One paragraph from the syllabus is as follows:

"The question whether the interest of a wife in community income amounts to ownership, and is therefore taxable and returnable under the Revenue Act of 1926, apart from the interest of the husband, is to be determined by the State law of community property (p. 110)."

And the opinion is as follows:

"Seaborn and his wife, citizens and residents of the State of Washington, made, for the year 1927, separate income-tax returns as permitted by the Revenue Act of 1926, chapter 27, section 223 (U. S. C. App., title 26, sec. 964).

"During and prior to 1927 they accumulated property comprising real estate, stocks, bonds, and other personal property. While the real estate stood in his name alone, it is undisputed that all of the property, real and personal, constituted community property and that neither owned any separate property or had any separate income.

"The income comprised Seaborn's salary, interest on bank deposits and on bonds, dividends, and profits on sales of real and personal property. He and his wife each returned one-half the total community income as gross income and each deducted one-half of the community expenses to arrive at the net income returned.

"The Commissioner of Internal Revenue determined that all of the income should have been reported in the husband's return, and made an additional assessment against him. Seaborn paid under protest, claimed a refund, and on its rejection brought this suit.

"The district court rendered judgment for the plaintiff (32 Fed. (2d) 916); the collector appealed, and the circuit court of appeals certified to us the question whether the husband was bound to report for income tax the entire income, orwhether the spouses were entitled each to return one-half thereof. This court ordered the whole record to be sent up.

"The case requires us to construe sections 210 (a) and 211 (a) of the Revenue Act of 1926 (U. S. C. App., title 26, secs. 951 and 952), and apply them, as construed, to the interests of husband and wife in community property under the laws of Washington. These sections lay a tax upon the net income of every individual. The act goes no further and furnishes no other standard of definition of what constitutes an individual's income. The use of the word 'of' denotes ownership. It would be a strained construction, which, in the absence of further definition by Congress, should impute a broader significance to the phrase.

"The Commissioner concedes that the answer to the question involved in the cause must be found in the provisions of the law of the State, as to a wife's ownership of or interest in community property. What, then, is the law of Washington as to the ownership of community property and of community income, including the earnings of the husband's and wife's labor?

"The answer is found in the statutes of the State and the decisions interpreting them.

"These statutes provide that, save for property acquired by gift, bequest, devise, or inheritance, all property however acquired after marriage, by either husband or wife, or by both, is community property. On the death of either spouse his or her interest is subject to testamentary disposition, and failing that, it passes to the issue of the decedent and not to the surviving spouse. While the husband has the management and control of community personal property and like power of disposition thereof as of his separate personal property, this power is subject to restrictions which are inconsistent with denial or the wife's interests as co-owner. The wife may borrow for the community purposes and bind the community property (*Fielding* v. *Ketler,* 86 Wash. 194). Since the husband may not discharge his separate obligation out of community property, she may, suing alone, enjoin collection of his separate debt out of community property (*Fidelity & Deposit Co.* v. *Clark,* 144 Wash. 520). She may prevent his making substantial gifts out of community property without her consent (*Parker* v. *Parker,* 121 Wash. 24). The community property is not liable for the husband's torts not committed in carrying on the business of the community (*Schramm* v. *Steele,* 97 Wash. 309).

"The books are full of expressions such as 'the personal property is just as much hers as his' (*Marston* v. *Rue,* 92 Wash. 129); 'her property right in it (an automobile) is as great as his' (92 Wash. 133); 'the title of one spouse * * * was a legal title as well as that of the other' (*Mabie* v. *Whittaker,* 10 Wash. 656, 663).

"Without further extending this opinion it must suffice to say that it is clear the wife has, in Washington, a vested property right in the community property equal with that of her husband; and in the income of the community, including salaries or wages of either husband or wife, or both. A description of the community system of Washington and of the rights of the spouses, and of the powers of the husband as manager, will be found in *Warburton* v. *White* (176 U. S. 484).

"The taxpayer contends that if the test of taxability under sections 210 and 211 is ownership, it is clear that income of community property is owned by the community and that husband and wife have each a present vested one-half interest therein.

"The Commissioner contends, however, that we are here concerned not with mere names, nor even with mere technical legal titles; that calling the wife's interest vested is nothing to the purpose, because the husband has such broad powers of control and alienation, that while the community lasts, he is essentially the owner of the whole community proper and ought so to be considered for the purposes of sections 210 and 211. He points out that as to personal property the husband may convey it, may make contracts affecting it, may do anything with it short of committing a fraud on his wife's rights. And though the wife must join in any sale of real estate, he asserts that the same is true, by virtue of statutes, in most States which do not have the community system. He asserts that control without accountability is indistinguishable from ownership, and that since the husband has this, quoad community property and income, the income is that 'of' the husband under sections 210–211 of the income-tax law.

"We think, in view of the law of Washington above stated, this contention is unsound. The community must act through an agent. This Court has said with respect to the community-property system (*Warburton* v. *White,* 176 U. S. 494) that 'property acquired during marriage with community funds became an acquet of the community and not the sole property of the one in whose name the property was bought, although by the law existing at the time the husband was given the management, control, and power of sale of such property. This right being vested in him, not because he was the exclusive owner but because by law he was created the agent of the community.'

"In that case it was held that such agency of the husband was neither a contract nor a property right vested in him, and that it was competent to the legislature which created the relation to alter it, to confer the agency on the wife alone, or to confer a joint agency on both spouses, if it saw fit—all without infringing any property right of the husband. (See also *Arnett* v. *Reade,* 220 U. S. 311 at 319.)

"The reasons for conferring such sweeping powers of management on the husband are not far to seek. Public policy demands that in all ordinary circumstances litigation between wife and husband during the life of the community should be discouraged. Lawsuits between them would tend to subvert the marital relation. The same policy dictates that third parties who deal with the husband respecting community property shall be assured that the wife shall not be permitted to nullify his transactions. The powers of partners, or of trustees of a spendthrift trust, furnish apt analogies.

"The obligations of the husband as agent of the community are no less real because the policy of the State limits the wife's right to call him to account in a court. Power is not synonymous with right. Nor is obligation coterminous with legal remedy. The law's investiture of the husband with broad powers by no means negatives the wife's present interest as a coowner.

"We are of opinion that under the law of Washington the entire property and income of the community can no more be said to be that of the husband than it could rightly be termed that of the wife.

"We should be content to rest our decision on these considerations. Both parties have, however, relied on executive construction and the history of the income-tax legislation as supporting their respective views. We shall, therefore, deal with these matters.

"The taxpayer points out that, following certain opinions of the Attorney General, the decisions and regulations of the Treasury have uniformly made the distinction that while under California law the wife's interest in community property amounts to a mere expectancy contingent on her husband's death and does not rise to the level of a present interest, her interest under the laws of Washington, Arizona, Texas, and some other States is a present vested one. They have accordingly denied husband and wife the privilege of making separate returns of one half the community income in California, but accorded that privilege to residents of such other States.

"He relies further upon the fact that Congress has thrice, since these decisions and regulations were promulgated, reenacted the

income-tax law without change of the verbiage found in sections 210 (a) and 211 (a), thus giving legislative sanction to the executive construction. He stands also on the fact that twice the Treasury has suggested the insertion of a provision which would impose the tax on the husband in respect of the whole community income, and that Congress has not seen fit to adopt the suggestion.

"On the other hand, the Commissioner says that, granted the truth of these assertions, a different situation has been created as respects 1926 and subsequent years. For in the 1926 act there was inserted a section which plainly indicated an intent to leave this question open for the future in States other than California, while closing it for past years. The section is copied in the margin.

"We attribute no such intent to the section as is ascribed to it by the Commissioner. We think that although Congress had twice refused to change the wording of the act, so as to tax community income to the husband in Washington and certain other States in view of our decision in *United States* v. *Robbins* (269 U. S. 315), it felt we might overturn the executive construction and assimilate the situation in Washington to that we had determined existed in California. Section 1212, therefore, was merely inserted to prevent the serious situation as to resettlements, additional assessments, and refunds which would follow such a decision.

"The same comments apply to the Joint Resolution No. 88, Seventy-first Congress, on which the Commissioner relies.

"It is obvious that this resolution was intended to save the Government's right of resettlement in event that the proposed test suits, of which this is one, should be decided in favor of the Government's present contention. See the report of the Ways and Means Committee on the resolution (CONGRESSIONAL RECORD, June 11, 1930, pp. 10923-10925).

"On the whole we feel that were the matter less clear than we think it is on the words of the income-tax law as applied to the situation in Washington, we should be constrained to follow the long and unbroken line of executive construction applicable to words which Congress repeatedly reemployed in acts passed subsequent to such construction (*New York* v. *Illinois*, 278 U. S. 367; *National Lead Co.* v. *United States*, 252 U. S. 140; *United States* v. *Farrar*, 281 U. S. 624), reenforced, as it is, by Congress' refusal to change the wording of the acts to make community income in States whose law is like that of Washington returnable as the husband's income.

"The Commissioner urges that we have, in principle, decided the instant question in favor of the Government. He relies on *United States* v. *Robbins* (269 U. S. 315), *Corliss* v. *Bowers* (281 U. S. 376), and *Lucas* v. *Earl* (281 U. S. 111).

"In the Robbins case we found that the law of California, as construed by her own courts, gave the wife a mere expectancy and that the property rights of the husband during the life of the community were so complete that he was in fact the owner. Moreover, we there pointed out that this accorded with the executive construction of the act as to California.

"The Corliss case raised no issue as to the intent of Congress but as to its power. We held that where a donor retains the power at any time to revest himself with the principal of the gift, Congress may declare that he still owns the income. While he has technically parted with title, yet he in fact retains ownership and all its incidents. But here the husband never has ownership. That is in the community at the moment of acquisition.

"In the Earl case a husband and wife contracted that any property they had or might thereafter acquire in any way, either by earnings (including salaries, fees, etc.), or any rights by contract or otherwise, 'shall be treated and considered and hereby is declared to be received, held, taken, and owned by us as joint tenants * * *.' We held that, assuming the validity of the contract under local law, it still remained true that the husband's professional fees, earned in years subsequent to the date of the contract, were his individual income, 'derived from salaries, wages, or compensation for personal services' under sections 210, 211, 212 (a), and 213 of the Revenue Act of 1918. The very assignment in that case was bottomed on the fact that the earnings would be the husband's property, else there would have been nothing on which it could operate. That case presents quite a different question from this, because here, by law, the earnings are never the property of the husband, but that of the community.

"Finally, the argument is pressed upon us that the Commissioner's ruling will work uniformity of incidence and operation of the tax in the various States, while the view urged by the taxpayer will make the tax fall unevenly upon married people. This argument cuts both ways. When it is remembered that a wife's earnings are a part of the community property equally with her husband's, it may well seem to those who live in States where a wife's earnings are her own that it would not tend to promote uniformity to tax the husband on her earnings as part of his income. The answer to such argument, however, is that the constitutional requirement of uniformity is not intrinsic but geographic (*Billings* v. *United States* (232 U. S. 261); *Head Money Cases* (112 U. S. 580); *Knowlton* v. *Moore* (178 U. S. 41)). And differences of State law, which may bring a person within or without the category designated by Congress as taxable, may not be read into the revenue act to spell out a lack of uniformity (*Florida* v. *Mellon* (273 U. S. 12)).

"The district court was right in holding that the husband and wife were entitled to file separate returns, each treating one-half of the community income as his or her respective income, and its judgment is affirmed."

Section I of the fourteenth amendment to the Constitution of the United States is as follows:

"All persons born or naturalized in the United States and subject to the jurisdiction thereof are citizens of the United States and of the State wherein they reside. No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property without due process of law, nor deny to any person within its jurisdiction the equal protection of the laws."

I also wish to call your attention to the case of *Hoeper* v. *The Tax Commission of Wisconsin* (283 U. S. 208), as follows:

"Appellant, a resident of Marathon County, Wis., married in the year 1927. Subsequently to his marriage he was in receipt of income taxable to him under the income-tax statute of the State. His wife, during the same period, received taxable income composed of a salary, interest and dividends, and a share of the profits of a partnership with which her husband had no connection. The assessor of incomes assessed against the appellant a tax computed on the combined total of his and his wife's incomes as shown by separate returns, treating the aggregate as his income. The amount so ascertained and assessed exceeded the sum of the taxes which would have been due had their taxable incomes been separately assessed. The authority for the assessor's procedure is found in the following sections of the act:

"Section 71.05 (2) (d): '* * * In computing taxes and the amount of taxes payable by persons residing together as members of a family, the income of the wife and the income of each child under 18 years of age shall be added to that of the husband or father, or if he be not living, to that of the head of the family, and assessed to him except as hereinafter provided. The taxes levied shall be payable by such husband or head of the family, but if not paid by him may be enforced against any person whose income is included within the tax computation.'

"Section 71.09 (4) (c): 'Married persons living together as husband and wife may make separate returns or join in a single joint return. In either case the tax shall be computed on the combined average taxable income. The exemptions provided for in subsection (2) of section 71.05 shall be allowed but once and divided equally, and the amount of tax due shall be paid by each in the proportion that the average income of each bears to the combined average income.'

"Appellant paid the tax under protest and, after complying with requisite conditions precedent, instituted proceedings to recover so much thereof as was in excess of the tax computed on his own separate income. He asserted that the statute as applied to him violates the fourteenth amendment. The Supreme Court of Wisconsin overruled this contention and affirmed a judgment for appellees. The question is whether the State law as interpreted and applied deprives the taxpayer of due process and of the equal protection of the law. The appellant says that what the State has done is to assess and collect from him a tax based in part upon the income received by his wife, and that such exaction is arbitrary and discriminatory, and consequently violative of the constitutional guaranties.

"At common law the wife's property, owned at the date of marriage or in any manner acquired thereafter, is the property of her husband. Her earnings and income are his, he may dispose of them at will, and he is liable for her debts. Were the status of a married woman in Wisconsin that which she had at common law, the statutory attribution of her income to her husband for income tax would no doubt be justifiable. But her spouse's ownership and control of her property have been abolished by the laws of the State. Women are declared to have the same rights as men in the exercise of suffrage, freedom of contract, choice of residence for voting purposes, jury service, holding office, holding and conveying property, care and custody of children, and in all other respects. Under the title "Property rights of married women" it is enacted that a wife's real estate and its rents, issues, and profits shall be her sole and separate property as if she were unmarried, and shall not be subject to the disposal of her husband, and this is true of her personal property as well, whether owned at the date of marriage or subsequently acquired. She may convey, devise, or bequeath her property, real and personal, as if she were unmarried, and her husband has no right of disposal thereof, nor is it liable for his debts. Either spouse may convey his or her property to the other or create a lien thereon in favor of the other. The individual earnings of every married woman, except those accruing from labor performed for her husband, or in his employ or payable by him, are her separate property, and are not subject to his control or liable for his debts. She may sue in her own name and have all the remedies of an unmarried woman in regard to her separate property or business and to recover her earnings, and is liable to suit and to the rendition of a judgment, which may be enforced against her separate property as if she were unmarried. Since, then, in law and in fact, the wife's income is in the fullest degree her separate property and in no sense that of her husband, the question presented is whether the State has power by an income-tax law to measure his tax not by his own income but, in part, by that of another. To the problem thus stated what was said in

Knowlton v. *Moore* (178 U. S. 41, 77), is apposite:

" 'It may be doubted by some, aside from express constitutional restrictions, whether the taxation by Congress of the property of one person, accompanied with an arbitrary provision that the rate of tax shall be fixed with reference to the sum of the property of another, thus bringing about the profound inequality which we have noticed, would not transcend the limitations arising from those fundamental conceptions of free government which underlie all constitutional systems.'

"We have no doubt that, because of the fundamental conceptions which underlie our system, any attempt by a State to measure the tax on one person's property or income by reference to the property or income of another is contrary to due process of law as guaranteed by the fourteenth amendment. That which is not in fact the taxpayer's income cannot be made such by calling it income. Compare *Nichols* v *Coolidge* (274 U. S. 531, 540).

"It is incorrect to say that the provision of the Wisconsin income-tax statute retains or reestablishes what was formerly an incident of the marriage relation. Wisconsin has not made the property of the wife that of her husband, nor has it made the income from her property the income of her husband. Nor has it established joint ownership. The effort to tax B for A's property or income does not make B the owner of that property or income, and whether the State has power to effect such a change of ownership in a particular case is wholly irrelevant when no such effort has been made. Under the law of Wisconsin the income of the wife does not at any moment or to any extent become the property of the husband. He never has any title to it, or controls any part of it. That income remains hers until the tax is paid, and what is left continues to be hers after that payment. The State merely levies a tax upon it. What Wisconsin has done is to tax as a joint income that which under its law is owned separately and thus to secure a higher tax than would be the sum of the taxes on the separate incomes.

"The court below assigned two reasons which it thought removed the constitutional objections to the application of the statute in the instant case. It cited and followed the *Income Tax cases* (148 Wis. 456; 134 N. W. 673; 135 N. W. 164), where the statute here in question was sustained on the ground that the provisions under attack are necessary to prevent frauds and evasions of the tax by married persons, and stated that the decision of this court in *Schlesinger* v. *Wisconsin* (270 U. S. 230) was not inconsistent with the views expressed by the Supreme Court of Wisconsin in its earlier decision. To this we cannot agree. In the Schlesinger case this court held invalid a statute which, for purposes of inheritance tax, classified all gifts inter vivos, effective within 6 years of death, as gifts made in contemplation of death. To the argument of the necessity for such classification to prevent frauds and evasions, it was answered (p. 240):

" 'That is to say, A may be required to submit to an exactment forbidden by the Constitution if this seems necessary in order to enable the State readily to collect lawful charges against B. Rights guaranteed by the Federal Constitution are not to be so lightly treated; they are superior to this supposed necessity. The State is forbidden to deny due process of law or the equal protection of the laws for any purposes whatsoever.'

"The claimed necessity cannot justify the otherwise unconstitutional exaction.

"The second reason assigned as a justification for the imposition of the tax is that it is a regulation of marriage. It is said that the marital relation has always been a matter of concern to the State, and has properly been the subject of legislation which classified it as a distinct subject of regulation. It is suggested that a difference of treatment of married as compared with single persons in the amount of tax imposed may be due to the greater and different privileges enjoyed by the former, and, if so, the discrimination would have a reasonable basis, and constitute permissible classification. This view overlooks several important considerations. In the first place, as is pointed out below, the State has, except in its purely social aspects, taken from the marriage status all the elements which differentiate it from that of the single person. In property, business, and economic relations they are the same. It can hardly be claimed that a mere difference in social relations so alters the taxable status of one receiving income as to justify a different measure for the tax.

"Again, it is clear that the law is a revenue measure, and not one imposing regulatory taxes. It levies a tax on "every person residing within the State" and defines the word "person" as including "natural persons, fiduciaries, and corporations," and "corporations" as including corporations, joint-stock companies, associations, or common-law trust." It lays graduated taxes on the incomes of natural persons and corporations at different rates. It is comprehensive in its provisions regarding gross income and allowable deductions and exemptions and is in most respects the analog of the Federal income-tax acts in force since 1916. It is obvious that the act does not purport to regulate the status or relationships of any person, natural or artificial. Arbitrary and discriminatory provisions contained in it cannot be justified by calling them special regulations of the persons or relationships which are the object of the discrimination. The present case does not fall within the principle that where the legislature, in prohibiting a traffic or transaction as being against the policy of the State, makes a classification, reasonable in itself, its power so to do is not to be denied simply because some innocent article comes within the prescribed class (*Purity Extract Co.* v. *Lynch*, 226 U. S. 192, 204). Taxing one person for the property of another is a different matter. There is no room for the suggestion that qua the appellant and those similarly situated the act is a reasonable regulation, rather than a tax law.

"Neither of the reasons advanced in support of the validity of the statute as applied to the appellant justifies the resulting discrimination. The exaction is arbitrary and is a denial of due process.

"The judgment must be reversed and the cause remanded for further proceedings not inconsistent with this opinion.

"Reversed."

I also call your attention to the case of *Knowlton* v. *Moore* (178 U. S. 41, 77), and I quote therefrom as follows:

"It may be doubted by some, aside from express constitutional restrictions, whether the taxation by Congress of the property of one person, accompanied with an arbitrary provision that the rate of tax shall be fixed with reference to the sum of the property of another, thus bringing about the profound inequality which we have noticed, would not transcend the limitations arising from those fundamental conceptions of free government which underlie all constitutional systems.

"The Court proceeds in this case as follows:

" 'We have no doubt that, because of the fundamental conceptions which underlie our system, any attempt by a State to measure the tax on one person's property or income by reference to the property or income of another is contrary to due process of law as guaranteed by the fourteenth amendment. That which is not in fact the taxpayer's income cannot be made such by calling it income.'

"Following that, the opinion concludes as follows:

" 'Arbitrary and discriminatory provisions contained in it cannot be justified by calling them special regulations of the persons or relationships which are the object of the discrimination. The present case does not fall within the principle that where the legislature, in prohibiting a traffic or transaction as being against the policy of the State, makes a classification, reasonable in itself, its power so to do is not to be denied simply because some innocent article comes within the prescribed class (*Purity Extract Co.* v. *Lynch*, 226 U. S. 192, 204). Taxing one person for the property of another is a different matter. There is no room for the suggestion that qua the appellant and those similarly situated the act is a reasonable regulation, rather than a tax law.

" 'Neither of the reasons advanced in support of the validity of the statute as applied to the appellant justifies the resulting discrimination. The exaction is arbitrary and is a denial of due process.

" 'The judgment must be reversed and the cause remanded for further proceedings not inconsistent with this opinion. Reversed.' "

These decisions clearly show that the Supreme Court of the United States has passed upon this matter of community property taxation, and I cannot understand how anyone could think that the Supreme Court of the United States would reverse itself on these matters. There is an axiom to the effect that—

"Law is the perfection of reason. It always contends to conform thereto, and that which is not reason is not law."

Under our dual form of government each State has the right and the authority to fix its own laws and its own property rights, and these laws and these property rights will not be disturbed by the Supreme Court of the United States provided they do not conflict with the Constitution of the United States, which is the supreme law of our land. These decisions may go over the heads of some folks who do not have proper reverence for our Constitution and our laws. Some Members of Congress, I am sorry to say, claim that when we refer to the Constitution that it is simply a lawyer's trick to evade the issues. I cannot subscribe to that doctine, nor do I have any patience with it. Each Member of Congress takes this oath:

"I do solemnly swear (or affirm) that I will support and defend the Constitution of the United States against all enemies, foreign and domestic; that I will bear true faith and allegiance to the same; that I take this obligation freely, without any mental reservation or purpose of evasion; and that I will well and faithfully discharge the duties of the office on which I am about to enter. So help me God."

Under this oath my duty is to interpret the Constitution from my own viewpoint with what honesty and intelligence I may possess. I cannot delegate this duty to the Supreme Court of the United States, because it is a personal matter to me that I must act upon before the Supreme Court of the United States is called to act upon it. If this Congress should pass a bill interfering with the right of eight sovereign States of this Union to fix their own property rights when those rights are not in conflict with the Constitution of the United States, then I have no doubt but that the Supreme Court of the United States will write such doubting Thomases another letter in addition to those which I have given.

I am aware that to the person who has not given study to this very important problem, that at first blush it might occur to him that the community-property States have some advantages over those States which do not have community-property laws. However, when you take into consideration the fact

that the laws in the community-property States absolutely fix the status of community-property rights between the husband and the wife and that they have little opportunity or power by subterfuge to escape their just proportion of taxation, and when you consider the different laws of the 40 States which are not community-property States and the powers and possibilities which the citizens of those States have under their own peculiar laws for tax evasion, it occurs to me that the 8 community-property States would be at a disadvantage if denied their rights under their own constitution and laws. A few of these evasions are accomplished through transfers of properties from husband to wife or wife to husband, by allocations of charitable gifts, by exchanges of security holdings, and by trusts, voluntarily created. These evasions are more difficult in Texas and at least some of the other community-property States because of stringent legal restrictions fixed by statutes of these States. The hearings before the committee contain an able argument made by the gentleman from Washington [Mr. HILL] on this subject.

The able subcommittee of the Ways and Means Committee, which under resolution investigated the question of tax avoidance considered this subject, with the advice of experts, and after full consideration said:

"No recommendation in regard thereto is made by your subcommittee in view of the legal difficulties involved."

Some Member of Congress made the statement on the floor of the House that the President was behind this matter to deprive the community-property States of their legal rights. At least that was the substance of his suggestion. I challenge that statement.

The Treasury Department, in referring to this matter, simply recommended for consideration their views which were set out in their report. There is not a lawyer who values his reputation but who will tell you that the constitutionality of either proposal, one, known as the Parker proposal, or the Treasury proposal, does not present grave questions of constitutionality. This is not the question of making the 8 community-property States pay more tax and thereby relieving the tax burden of the citizens of the other 40 States of this Union. If you compel the 8 community States to pay more tax, the citizens of the 40 States will pay as much tax as they are now paying and even more. In the first place, the Treasury suggestion was to have one joint return between the husband and wife. If that should become a law, it will be a new and revolutionary proceeding in the income-tax laws of this Nation and will cause many citizens in every congressional district in the 40 noncommunity States to pay more taxes than they are now paying. In other words, when you seek to inflict punishment on the 8 community-property States, each and every Member of Congress who votes for either proposal which has been submitted will by his or her vote increase the taxes upon some of their own constituents. The income-tax law is based on the individual. It states that—

"There shall be levied, assessed, and collected from every citizen an income tax."

It does not state that you can group these citizens. If you can group them under the head of husband and wife, then why not include all of the children? Why not group the entire family? Then the other proposal to tax, not every person as the income-tax laws state but to tax the one who manages and controls the income, is a new departure from the income-tax law as was written and has been in force these many years. Instead of taxing each individual citizen who has an income you are going to tax someone who manages or controls an income.

If either one of the revolutionary proposals is adopted, those who vote to adopt them will find that after the law becomes effective many of their own citizens will have to pay more taxes than they are now paying; and it will be small comfort to a Member of Congress to go out into his district and tell his constituents that he voted to make the eight community-property States of the Union pay more taxes than they had been paying, when some intelligent citizen rises up in the audience and says, "Mr. Congressman, that sounds mighty good, but under the law that you passed you are causing me to pay more taxes than I had to pay heretofore, because I had a separate income from my wife and we had been filing separate returns by reason of that fact, and yet you now compel us to file a joint return or a return based upon management and control." I plant my feet on the good old doctrine of State rights, that each and every State has the right to manage and control its own affairs and fix its own property rights when not in conflict with the Constitution of the United States.

Mr. Chairman, the compelling of husbands and wives to file joint income-tax returns under any and all circumstances is a new experiment and a dangerous precedent to establish. It is retrogressive and would revive the old common law fiction that the wife is a chattel of the husband. It would destroy and wipe out all the rights and equality that woman has gained in the last century and place her back in her former servile status. Mandatory joint returns by husband and wife would establish a dangerous and undesirable precedent, because if Congress has the legal right to force joint returns by husband and wife, why then has Congress not the power to force joint returns by other family members, for instance, for father and son, sister and brother, mother-in-law and husband, or wife and father-in-law? The forcing of mandatory returns by husband and wife is not predicated upon their relationship as such, but is a purely arbitrary act by the Congress and if sound and legal can be applied to all other relations as well. It is a compulsory pooling of income for taxation purposes which is without warrant in the Constitution and if once established, can be carried to any extreme. It would nullify the individual property rights of the citizen under State law, which has been recognized as paramount during our entire national history, and which the United States Supreme Court has always recognized as inviolate and sacred. I therefore hope that the mandatory joint return provision will be stricken from the bill.

Mr. Chairman, on yesterday I secured permission to extend these remarks and to include therein comments by Hon. George Donworth, former Federal judge of Seattle, Wash., and a speech of a former Member of the House, Hon. Morgan G. Sanders, of Texas.

Mr. DOUGHTON. Mr. Chairman, I yield such time as he may desire, to the gentleman from South Carolina [Mr. HARE].

Mr. HARE. Mr. Chairman, however inconvenient or painful it may be, it is essential that Congress take steps to begin collection of funds looking toward the payment of enormous appropriations we have been making for the past year for use in national defense. When we lose sight of the fact that the bills must be paid with money earned by the people, it is an easy matter to make appropriations, but revenue bills and increased taxes have a tendency to make the representatives of the people think twice before voting appropriations for increased taxes. As direct representatives of the people, we cannot separate the responsibility to make appropriations for the benefit of the people from the responsibility to levy and collect taxes to meet such appropriations.

It is practically impossible to pass an appropriation bill and turn the funds over to someone to be dispensed and expecting to be expended without some mistakes or possibly some waste. It is equally difficult to prepare a revenue bill and not expect some inequalities in the operation or administration of the law. We may expect some hardships and some inequalities to follow the passage of this bill, but I do not feel there is any great necessity to be alarmed because there will probably be many other revenue bills within the next few years and any inequities found in the administration or operation of the law can be remedied in revenue bills to be presented later. The membership of this committee will be perfectly familiar with the conditions upon which all the revenues provided for in this bill are passed and they will, therefore, be in a position to assist in correcting any inequalities that may appear. Mr. Chairman, I would like to observe in passing that it is a fortunate policy of Congress to retain Members on the Ways and Means Committee generally as long as they remain in Congress, and it is a fortunate custom of the people to reelect Members who have demonstrated sufficient ability to merit a place on this committee.

Of course, the collection of the funds we have appropriated within the past year will cover a period of years. That is, the collection will be distributed over a number of years to come, but I have felt for some time that we proceed with collection somewhat in proportion to our expenditures and ability to pay because, as we have already suggested, the responsibility for making a debt and providing funds with which to pay it cannot be divorced. Should it ever become the policy of any Congress, administration, or political party in power to incur debts for their successors to provide payment, then our system of government will be in grave danger, for making a debt without taking thought of payment into consideration will not only bankrupt an individual but will bankrupt a government. Furthermore, this is a government by the people and if we are to be beneficiaries of money spent we should be willing to assist in paying the bills. We all know that when a person spends more than he produces year after year he will soon find himself upon the rocks. A government cannot continue to spend without taking definite action and making plans for payment. Of course, some have the idea that so long as we can borrow the money from our own people we are in no danger, but I think the philosophy of Benjamin Franklin still holds good when he observed: "He who goes a-borrowing goes a-sorrowing."

You have heard a great deal within the past 12 months about reducing expenditures, except for defense purposes, but so far little or nothing has been done, and my prediction is that little or nothing will be done about it until we undertake to collect taxes to pay, then we can expect a reduction in nondefense items but hardly before.

Mr. DOUGHTON. Mr. Chairman, I yield 20 minutes to the gentleman from Michigan [Mr. DINGELL].

Mr. DINGELL. Mr. Chairman, I shall undertake within the brief span of time allotted to me to discuss primarily the question of the manufacturers' and retailers' excise taxes contained in this bill. The estimated total amount of revenue anticipated from this source alone is $514,900,000. To this might be added various miscellaneous taxes amounting to $365,200,000, which cover such items as the operation of amusement and gaming devices, tax on the use of telephone and telegraph and other communication facilities, tax on theater admissions and on other forms of amusement, and likewise a use tax on motor vehicles and boats.

If we are to follow the classification of miscellaneous taxes a step further we will include an amount of $174,200,000, which covers capital stock, estate and gift taxes, making a grand total of miscellaneous internal revenue of $1,054,300,000. However, I shall not even attempt to discuss the last two classifications due to the fact that I must in a sense only sideswipe the discussion of the most important items which are being considered for the purpose of creating new or additional excise levies affecting manufacturers and retailers.

The average Member of the House need have no difficulty in understanding the provisions of H. R. 5417 if an evening or two are devoted to the study of the report which is as meaty as a stuffed goose. It is an interesting document replete with informative matter covering every point in the bill. Various statistics, tables, and examples which will fix firmly in your minds not only the intent and application of the bill, but likewise the basis for certain imposts which are included. To be perfectly candid with the membership of the House, I have been opposed in principle to excise taxes as a source of revenue. I have been in disagreement with the principle of taxing a given product of a manufacturer whether the tax was applicable to food, drink, mechanical contraptions, or amusements.

I always adhered to what I considered a basic and sound theory in taxation and that is to tax the income derived from a product or an activity rather than to stifle or retard the production of a commodity by imposing a tax in the form of an excise. In other words, under normal circumstances I believe in the free and uncontrolled production of essential goods and products and the imposition of the tax upon the profits which accrue as a result. I believe that the majority of the committee members feel pretty much the same as I do about this principle but these are most unusual times in that they are critical, dangerous, and unpredictable and the Treasury needs an unparalleled volume of recurrent tax revenues from many sources. The Government of the United States and our American way of life is at stake and for that reason I must compromise with my own rebellious attitude in order to obtain the necessary revenue with which to secure the future of my own beloved country.

Of course, the Committee could have voted in the face of protests and the expert advice to the contrary, to disregard this avenue of revenue and could have centered its action upon vastly increased corporation and individual income taxes. I may say by way of digression that if you wipe out section 111 with regard to compulsory joint returns you are going to have to increase the rates in every categord of the income taxes.

The committee could have disregarded the ruinous effect of an arbitrary action of this kind, but the Committee on Ways and Means, like any other important and responsible committee of this House, is as anxious to bring out a bill that is as equitable, reasonable, and as considerate, if I might use that term in connection with a tax bill, as is possible under existing circumstances. It has been a most difficult task. The committee since April 24 has labored ceaselessly and tediously until July 25 before completing the revenue measure now in your hands. All taxes contained in the bill have been increased substantially, either by a direct hike in the rate applicable to a given classification, by a reversal of the method of computation, by reduction in credit and deduction, or by a combination of all of these.

To devise and complete a bill of this nature requires a great amount of patience and fortitude. Every member of the Ways and Means Committee, whether on the majority or minority side, has been seared with the heat of concentrated opposition emanating from the sources touched by new or additional taxes and affecting nearly every item on the approved schedule. We have scrutinized very closely, we have appraised and reappraised, and considered and reconsidered nearly every item which we now present for your approval. The entire committee was prompted by a desire to bring out a bill that would be acceptable because it was equitable and because the burden was distributed as widely and as uniformly as our joint efforts could devise.

My predicament in particular was not a very comfortable one as you can well realize. Arguments were made before the committee to impose repressive taxes upon the automobile industry and that included tire, tube, and accessory production. This recommendation was reinforced by the militant and aggressive Henderson-Eccles combination which advocated a tax of 20 percent to 25 percent of the manufacturer's sale price, and even more, in order to reduce the demand for automobiles. The purpose of the advocates was lofty, patriotic, and unquestioned as to its intent. The advocates of the tax on automobiles were not content to apply a manufacturer's excise tax to new cars, but went a step further in the proposal, which was actually voted down in the committee, to levy a 3 percent excise tax upon the sale and the resale of used or second-hand cars.

I am not going to burden the committee with an extensive rehash of what occurred during our executive sessions only to say that the Treasury came forth with a final proposal of a 15-percent tax to which proposal I voiced unqualified opposition and moved the imposition of a 7-percent tax instead. The committee in its wisdom, after considerable discussion, sustained my proposal. You will note that the bill now carries a provision embodying my motion. Incidentally, the increase amounts to 100 percent above existing law. The committee voted to increase the tax on tires and tubes a little over 100 percent.

It is interesting to note that the great automobile industry, more specifically the manufacturing end of the business, did not interpose any serious objections to a higher rate of taxation. The surprising thing to me was the fact that I was neither prompted nor encouraged to combat the Treasury or the Henderson-Eccles proposals. Seemingly, the industry was resigned to "take it lying down" and there seemed to be utter abandonment of the dealers in that no objection was interposed on their behalf. I could understand how the manufacturers might, during the emergency, continue to keep their plants in operation and their employees fully occupied because I knew it was intended by the higher repressive taxes while reducing automobile production to make such productive facilities available for the production of ordnance of all kinds, including tanks, planes, and munitions. Profits, too, could be anticipated and actually gaged from this source of operations and there need be no dislocation if the reduction in automobiles was absorbed systematically by the production of defense items.

However, the problem of the dealer was very complicated. In fact, his very existence was in danger; especially so if the used car was to be taxed in sale. The dealers' association throughout the country was aroused to the danger and stimulated some slight opposition and even the automobile manufacturers bestirred themselves later to retain the 7 percent, but this only after the fight had been won. I dislike to arrogate unto myself all of the peacock feathers or to occupy the spotlight alone, but I do want to say that it was rather disheartening to "go it alone" in the face of the powerful lineup against me. I want to acknowledge the valued and effective assistance of my colleague from Michigan and to take this opportunity to say that this tax bill has been considered in an atmosphere that was free from narrow partisanship.

The recommendations of the Treasury with regard to a tax on beer were not approved in committee. Beer being a poor man's drink and a liquid food, was presumed to be carrying its fair share of the tax burden. Cigars, cigarettes, and tobacco were reexamined carefully for possible additional revenues, but these too were permitted to remain without the imposition of any additional tax. The Treasury made the proposal to impose a bank-check tax. After a careful

analysis of the problems involved and the amount of revenue to be derived, the committee, in my estimation, wisely decided against the impost at the present time.

The committee reduced the Treasury's recommendation as regards taxes on soft drinks from an estimated amount of $132,000,000 down to one-sixth of the amount, or $22,000,000, which, according to this rough estimate, amounts to one-sixth of a cent per bottle or 4 cents per case. As to the attitude of your humble servant, I have favored the elimination of this tax in its entirety, especially so since I have been in entire accord with the elimination of the tax proposal with regard to candy. The committee, however, refused to consider several moves to strike out soft drinks from the provisions of this bill.

Recommendation by the Treasury to hike the tax on gasoline was not concurred in, and the tax, therefore, remains the same. Various other products and commodities were subjected to an increase or were entered as new objects of excise taxes. Consideration of the question of imposing floor taxes followed naturally in the wake of new or additional levies. The committee gave individual attention in each case and tried to handle the problem in such a way as to cause as little dislocation to the affected industry as was possible, while, at the same time, protecting the revenue of the Treasury. I believe you will find that on the whole the taxpayers who have been consulted in the matter are in agreement with the provisions of the bill relating to floor taxes.

Mr. Chairman, I want to express my keen appreciation of the very fine exposition of statesmanship we had here this afternoon on the part of the gentleman from Oklahoma [Mr. DISNEY] and the gentleman from California [Mr. VOORHIS]. Both of these gentlemen hail from community-property States, and they have shown as fine an example of statesmanship, selflessness, service, and a subjugation to sound principle as I have ever witnessed on this floor. Political expediency or particular advantage for themselves and for their States was not taken into account. The general good of the country only and of the great majority of their own people motivated these two gentlemen in coming here and taking the side of the issue which holds to the fact that section 111, pertaining to compulsory joint returns, is sound and should remain in the bill.

And now, if I might be permitted, Mr. Chairman, to dwell for just a few moments on the controversial and misunderstood subject of compulsory joint returns, I should want to say that the Committee on Ways and Means for a period of years, and more especially during the past 8 years, with which I am familiar, tried to get at this problem which, while not confined alone to community property States, of which there are nine, is most acute and pressing because of these States. However, as I stated, the problem is not confined to these nine States. It is prevalent to a lesser degree in every State of the Union and confined to a relatively small percentage of the taxpayers of any given State.

Taking the number of married couples filing income-tax returns throughout the United States, the total is 3,041,624. Of this number 2,866,026 are at the present time, and voluntarily, filing joint returns, while only 175,598 married couples constituting 5.77 percent file separate returns. For the benefit of the people of Michigan I want to state that out of 136,701 married couples filing returns 132,080 voluntarily file joint returns now, while only 4,621 married couples, constituting 3.38 percent file separate returns. You will observe that among the married couples making separate returns in Michigan the percentage in my State is slightly more than one-half of the percentage in this category nationally.

To be more specific, separate returns in Michigan amount to only 3.38 percent of the total, whereas throughout the United States the percentage is 5.77. This is due to the fact that the community-property States swell the national average in this classification.

Let us now take several of the community-property States as an illustration: California, which has been one of the greatest beneficiaries, the State of Texas, and the State of Louisiana. Incidentally, these States in about the order named have been most bitterly opposed to any change of status. The percentage of separate returns in California in relation to the total filing returns is 11.83, in Texas it is 14.82 and in Louisiana it is 17.19; more than twice and three times the national average, and as high as five times the average for Michigan.

Mr. GEARHART. Will the gentleman yield?

Mr. DINGELL. I yield to the gentleman from California.

Mr. GEARHART. Is the gentleman assuming, as I think he is, that in those separate returns that only the income on community-property income is reported to the Government?

Mr. DINGELL. I am merely taking the figures for what they are and they indicate clearly that the percentage in the State of California who file separate returns is more than three times as great as in Michigan so there must be some advantage in this practice for the taxpayers of your State.

Mr. GEARHART. I may point out to the gentleman that in those separate returns may be contained a return upon income derived from common property, a return upon income derived from separate property, a return of income derived upon property held as a joint tenancy, with survivorship, or under any other legalistically conceived estates by which property may be held or income derived. California recognizes the holding of property under as many different systems as man can conceive of. And the return on income derived under any property classification is made separately. So your figures do not shed much light on the situation.

Mr. DINGELL. I am mindful of all that you say, but you cannot get away from the fact that the figures clearly indicate that in the State of California a taxpayer will pay only $880 as compared with $1,166 in Michigan because he splits his return in California and because we in Michigan do not have the community-property privilege.

Mr. GEARHART. Because California has gained a slight advantage, you want to take that from California. Are you willing to inflict upon yourself and the taxpayers of the non-community-property States cruel and unusual treatment just because the taxpayers of California enjoy a slight benefit?

Mr. DINGELL. I am not inflicting anything upon my people or upon myself. I am guarding against a wrong. I will tell you how I might inflict upon myself, and that is if I vote to strike section 111 in reference to compulsory joint returns. I will tell you to what extent I am going to inflict it upon myself, and this goes for every Member of the House. Here is where the infliction will come in. Let us take the example which I cited of the Californian paying $880 on a separate return and the Michigander $1,166. The Michigander will, if this section is stricken from the bill, be obliged to pay $1,628. Make no mistake about this. I am serving notice on the House now that I propose to press for some sort of action that will wipe out this advantage. Call it small or big, it is absolutely without justification, and I am going to insist that it be eliminated and that the taxpayers of Michigan and of California must be treated alike. For this reason I am going to insist that split or divided returns shall apply equitably throughout the entire United States and to compensate for whatever loss may occur as a result of the striking of this provision from the bill, that the rates be hiked sufficiently to bring about a balance in accordance with what the committee originally planned.

Mr. GEARHART. I believe the suggestion the gentleman makes is one well worthy of consideration.

Mr. DINGELL. The gentleman has expressed himself to that effect before.

Mr. GEARHART. I would like to have it thoroughly investigated. I believe, however, if we pass this proposal that the people who do not live in community-property States are going to find that they have bitten off their own noses to spite the face of someone who happens to be living in a community-property State.

Mr. DINGELL. I will tell you how many are involved. In my State the ones who will be penalized, as the gentleman states, and who will be made to pay their fair proportion, as I say, number 4,621 out of 136,701 at the present time.

Mr. SHAFER of Michigan. What percentage is that?

Mr. DINGELL. Three and thirty-eight one-hundredths percent.

I call your attention to page 17 of the report, and I dare say if you will read this very carefully so that you will be able to understand the illustration and the table and realize the effect that not a single Member of this House living in a non-community-property State will vote to strike out section 111, because if you do you will perpetuate the special privilege and the evasion of tax on the part of 6 percent of the taxpayers and will impose it upon the already overburdened 94 percent who voluntarily file

joint returns. That means, too, that you will have to impose upward of $323,000,000 more on the people who willingly and without complaint are paying their just share in order to respond to the protests of those who are now enjoying an undeserved privilege.

May I say here and now, Mr. Chairman, that if this well-organized and determined move emanating from the community-property States' representatives should materialize, and the House should strike section 111 from the bill, I shall endeavor to have the committee submit for the consideration of the House a plan which I have advocated of a compulsory divided or split return applicable in all States and to all income taxpayers in the same way. In other words, to give to all married couples the same privileges and the same advantages as are had by the married couples which in community-property States make separate returns and enjoy the more attractive rates contained in the lower brackets. Such a move is intended to equalize the burden among the taxpayers in my State and is intended to eliminate evasions and such other advantages as are permitted under the law and which accord avenues of escape through the creation of trust funds, through the practice of making substantial gifts to wives and to husbands, and by other recognized and legitimate means. In order that there may not be a loss of revenue my proposal will include a substantial hike or increase in the tax rates and then I am wondering how many Members of this House from non-community-property States will dare vote against such a proposal. There is neither rhyme nor reason why an income taxpayer in the State of Michigan should pay $1,166 in making his joint return while a taxpayer similarly situated and in the same classification should pay $286 less, because he is privileged to make a separate or split return with his wife, and the presumption being that one-half of his $10,000 income for tax purposes belongs to her. I am wondering if there will be a single Member from Michigan who will vote to strike out the compulsory joint-return provision in order to favor the 4,621 privileged taxpayers in Michigan and thereby shift a substantial amount of the tax burden to the 132,000 who are today voluntarily filing joint returns.

I am prepared to defend my position in this matter against any and all attacks and I am sure that my people in the State of Michigan will sustain me.

When the time comes I am not tonguetied and will make myself heard. Many well-intended people have been misled to believe that this compulsory joint-return provision is a discrimination against wives—in other words, against women. That is sheer bunk and nonsense. There is nothing in the bill which will sustain that kind of an argument. The gender was not considered. It applies equally to men and to women. The bill has in mind only the taxpayer. We, of the committee, were not concerned about sex. Moreover, arguments were advanced that this provision will lead to dissolution of marriages, will create misunderstandings, will stimulate loose moral practices and downright illicit sexual relations.

All of these arguments are fallacious and without foundation. I received a letter written by a prelate of a great Christian communion which was addressed to members of the Committee on Ways and Means but which was first given to the press. The letter was undoubtedly inspired by selfish individuals directly affected by the compulsory joint-return proposal. The well-intended bishop was sadly misled. He cannot sustain his position or his opposition and subjects himself to well-deserved criticism. I have written him and stated, in part:

> I feel that when a bishop, laying aside his mitre and mantle, departs from theology and dogma and invades, without extensive study, the complex and dangerous field of taxation, that he may subject himself to criticism similar to that which once was applicable to a great inventor who left his bench and formulae and slide rule to prove by electrophysics and mechanical appliances that there was or was not a God.

I shall vote to retain the compulsory joint provision.

[Here the gavel fell.]

Mr. CARLSON. Mr. Chairman, I yield such time as he may desire to the gentleman from California [Mr. GEARHART].

Mr. GEARHART. Mr. Chairman, I ask unanimous consent to revise and extend the remarks which I have made and which I will hereafter make during the discussion of this bill.

The CHAIRMAN. Is there objection to the request of the gentleman from California [Mr. GEARHART]?

There was no objection.

Mr. CARLSON. Mr. Chairman, I yield such time as he may desire to the gentleman from Michigan [Mr. DONDERO].

Mr. DONDERO. Mr. Chairman, the proposed tax bill, H. R. 5417, now before the House for consideration proposes a levy of three and a half billion dollars in new taxes on the American people. The House Ways and Means Committee has devoted a great deal of time to the subject, and, upon the whole, has performed an exceedingly difficult task. They have brought to the House a tax measure which includes an enormous list of new items, tax schedules, amendments, and rates. It is a complicated measure. It is not easy to understand it all unless one is a member of the Ways and Means Committee and has taken part in the consideration and preparation of a measure of this magnitude and scope.

There is no such thing as a good tax bill. Taxes, whether large or small, are never welcome to those who have to meet the obligations and burdens imposed by them.

The present bill, by and large, presents an equitable measure. The committee exercised a great deal of care in an effort to avoid inequities and unjust provisions. In spite of that fact, however, inequities are bound to appear and some of the provisions of this bill seem to be unjust.

Like every other Member of this body, I have received protests against the unjust proposal of joint return by husband and wife of their income. It is even claimed that the effect of this change in the law would discourage marriage and encourage divorce, and that where the husband and wife have incomes from separate estates, they could live cheaper by severing their marital relations. It is quite probable that the objections to it may result in its being stricken from the bill under the rule presented to the House.

This tax bill proposes, like others that have been presented, to place an additional and ever-increasing burden upon industries that offer the least resistance and where the tax can be collected with the least effort.

The greatest industry in the United States, or at least one of the largest industries in this country and which furnishes a large amount of money in taxes for the Federal Government, is the automotive industry. While this tax bill doubles the amount of taxes upon that industry, I believe that the committee has done a credible piece of work in view of the recommendations made. There is an inexorable law of diminishing returns and that never-changing rule of "killing the goose that lays the golden egg." Let us who are charged with the responsibility of protecting as well as taxing the industries and commercial life of this country beware that we do not impose unjust and punitive taxes upon an industry or a product because it is easy to tax. Better that we adopt a policy to make every person pay his just portion of the Nation's burden than to crush and destroy an industry because it yields easily to taxation.

A further unjust provision in the present bill has come to my attention regarding the proposed tax on outdoor advertising. I received a protest from an advertising firm in my State pointing out that if this provision of the bill became effective that the tax on its concern would approximate $3,700 annually, and that the company had never made a net profit of that amount in any one year. It further pointed out that they could not change their contracts with their customers because their contracts are made for a term of 3 years in advance. The result of this tax, if it becomes effective, will be to either force that concern into bankruptcy, reduce its personnel, or go out of business. If such should be the result, then we would be putting into actual practice the effect of that famous oft-quoted statement in a decision of the Supreme Court of the United States that "the power to tax is also the power to destroy."

During the last 11 months more than $53,000,000,000 has been appropriated by Congress for national defense. This staggering amount does not include the other billions of dollars required to meet the present high cost of running the Government. It probably will amount to at least ten or twelve billion dollars more, or a total of nearly $65,000,000,000.

This bill proposes to raise $3,500,000,000, or a little more than 5½ percent of the staggering sum appropriated and to be added to our public debt. This sum will be in addition to $9,500,000,000 now levied under existing law, or a total of $13,000,000,000 in taxes in 1 year.

No one familiar with the fiscal affairs of our Government hesitates to admit that a national debt of $100,000,000,000

will confront the American people. This tax bill is but a mild gesture compared to what the people will have to pay. During the last 8 years this country has witnessed an administration committed to extravagant spending and reckless borrowing. Much of it has been wasted and frittered away on many useless and questionable projects. The people of this Nation have been living in a fool's paradise. The Government has provided things which they would never have provided for themselves. In spite of the steadily mounting, staggering burden of public debt, a majority have gone to the ballot box and registered their approval of such a course. Undoubtedly many have done so in the belief that there was no end to the credit of the United States; that there would be a steady flow of Government checks; and that there would be no end to Federal hand-outs and subsidies.

But now the time has come when we must pay the fiddler. This is the first hint of what is to follow, and the people of this country will have but one of three choices to make. They must either bend beneath the load of Federal taxation, accept the disastrous effect of uncontrolled inflation, or the dishonor of repudiation. The latter means the destruction of the American form of government. The present course of adding billions upon billions to the ever-increasing amount of our national debt through spending, and borrowing from our great grandchildren, leads in one direction—the collapse of the economic structure of this Republic.

A very considerable portion of our people have come to believe that the Government will provide their livelihood without any or very little effort on their part to produce it.

Since this administration came into power I challenge anyone to find a single utterance made by the President calling upon the American people to economize in their daily living, to save a portion of their earnings for a rainy day, or to sacrifice in their wants and demands in life. On the contrary, they have been led to believe that the domestic policies of the administration and its theories of social reform made the virtue of thrift and saving old-fashioned, outmoded, and no longer necessary. The result is the staggering public debt that is now facing the Nation, with its attendant trend toward national bankruptcy. There will come a time, and it may be near at hand, when the people of this land will rise in their might and reject these utopian theories, that we can all have more by working less and saving nothing.

It may be that the history of governments deny the wisdom of placing a limitation upon the amount of debt that may be imposed upon the people of a country by their representatives, but I believe that the time may come when an amendment to the Constitution of the United States will be proposed by the people themselves fixing a limitation upon the amount of national debt beyond which no political party or Congress can go. There may be many reasons and arguments advanced why this would be unwise, but the present condition in which we find ourselves in the United States presents a tragic, if not a most convincing argument why such a course should be adopted.

In conclusion, let me say that the policy of borrowing, spending, and electing will never cease in this country until the viciousness of that policy and the burden which follows it are placed directly on the breakfast table and in the lap of every taxpayer and citizen in the United States. Then, and only then, will the people realize or become conscious of the unsound and dangerous course which has led them into our present difficulty.

This world has not yet discovered a theory of government superior to simple arithmetic.

Mr. CARLSON. Mr. Chairman, I yield such time as he may desire to the gentleman from Ohio [Mr. CLEVENGER].

Mr. CLEVENGER. Mr. Chairman, much as I dislike the rule under which this bill is brought before the House, I shall vote for it—large as it is in amount, the largest single tax-raising measure in history. It is still inadequate in scope to sustain the spending of this administration.

Certainly it is not strictly defense taxation. It will partly cover the ordinary civil expenditures—the customary deficits of the New Deal. With the delivery of present outstanding defense and lease-lend contracts our national debt must certainly approach the $100,000,000,000 figure. The debt service must approach 3 billions annually—the ordinary expenditures some 7 billions. The peacetime operation of Army and Navy not less than 5 billions or $15,000,000,000 per year, even after the feverish building of the present ceases. This is two and one-half times the national income for 1940. With billions more of New Deal schemes awaiting the go signal in the guise of defense or economic planning, certainly the financial outlook for America is dark indeed.

I have voted against billions in New Deal schemes including the $7,000,000,000 lease lend. I shall continue to do so. I have voted for billions for defense that I am sure are not being carefully spent, and with my country almost without friends and woefully unprepared I will continue to vote for preparedness even at the cost of waste. I regret to see these grievous burdens laid upon my unhappy country but the tune has been called, and the piper must be paid. My hope and my prayer is that the credit and the resources of my country may prove adequate to the task of arming and protecting this Nation against all threats from any quarter.

That we shall not face ruinous inflation, repudiation, or financial collapse due to this wild-eyed spending and profligate wasting under the New Deal.

How precious are the remaining assets, how jealously should they be conserved, that this free Republic may live and private enterprise under the American system offer its rewards to millions of men and women.

Mr. CARLSON. Mr. Chairman, I yield 10 minutes to the gentleman from Pennsylvania [Mr. RICH].

Mr. RICH. Mr. Chairman, they say that there is nothing sure in life but death and taxes. We know we are going to get the taxes, we know we have had the taxes, and some day I suppose death will come to all of us.

The power to tax is the power to destroy, and I believe we are probably approaching that point in our National Government.

I have heard much said about this tax bill being a defense-tax measure. I do not look upon this as a defense-tax measure. I look upon it as a tax to let the American people pay for the great joy ride we have had for the past 10 years. Each year in the past 8 years the national deficit has averaged $3,500,000,000. If you intended to keep on the joy ride, which it seems you do, because you have not reduced the regular operating expenses of government, it seems to me you should have put this tax bill into effect 10 years ago.

Since 1936 you have placed on the statute books eight major tax bills. This is the eighth major tax bill you have written for the American taxpayers to pay. A frugal man will keep the expenses of his home or his business to a minimum. You have not done that in the operation of your Government, and there is no one who can say that you have.

In regard to keeping expenses within your income, I can quote no better authority or no sounder statement than President Franklin D. Roosevelt in his campaign speech at Pittsburgh, Pa., on October 19, 1932:

> The credit of the family depends chiefly upon whether that family is living within its income. And that is equally true of the Nation. If the Nation is living within its income, its credit is good.
>
> If government lives beyond its income for a year or two, it can usually borrow temporarily at reasonable rates. But if, like a spendthrift, it throws discretion to the winds and is willing to make no sacrifice at all in spending; if it extends its taxing to the limit of the people's power to pay and continues to pile up deficits, then it is on the road to bankruptcy.

Also I quote from the Honorable Albert C. Ritchie, former Governor of Maryland, in his address before the Association of the Bar of New York City, March 28, 1935:

> No nation can ever be stable without recognizing certain fundamental economic truths, and one of these is that it must live within its means and cannot long borrow to meet deficits or current obligations. So we must aim for a balanced budget.

You have promised to reduce the number of bureaus and to reduce the operating expenses of Government. This you have not done. You have increased the number of bureaus, and you have multiplied by hundreds of percents the number of employees in the various departments. Now you are getting into the trouble that comes from such operations. You are not only getting into trouble now, but you are going to get into more trouble as you go on.

Refer to the Government statement of July 29. Do you know that you went into the red during the month of July up to that date over $1,117,000,000? Do you know that you have been going in the red during that time $38,500,000 a

day? Do you know that this administration has gone into the red at the rate of over $10,000,000 a day ever since it has been in existence? This is a terrible record. You have not only spent and spent and spent, but you have created the sentiment in the majority of the people of this country that they ought to come to the Government to get something out of the already empty Treasury. That is the worst thing that has ever happened to the American people. The old, stand-up American used to say, "I am ready to get up at 4 o'clock in the morning and get out and work, and earn, and save." You have just about broken down that quality in the sound American individuals, and it is going to be difficult for you to get the American people back to that attitude. You have come to such a point that God only knows if we will be able to preserve our American Government and our American form of life.

Mr. PATRICK. Mr. Chairman, will the gentleman yield?

Mr. RICH. I yield for a question.

Mr. PATRICK. I do not believe the gentleman can apply that argument right now, because this bill will bring something into the Treasury.

Mr. RICH. Yes; it will bring something in to pay for this terrible spending you have been doing, the things you voted for. You are doing it now under the guise of national defense. It is not because of national defense; it is because of the ruthless spending you have been doing in the last 8 years.

Mr. BUCK. Mr. Chairman, will the gentleman yield?

Mr. RICH. I cannot yield now, because I have only 10 minutes, and I do not want to impose on the time of the Members. You have heard me speak on this subject time after time. As long as God gives me the strength to do so, I am going to continue to punch it to you.

Mr. BUCK. Is the gentleman addressing his remarks to the members of the Committee on Ways and Means or to the House generally?

Mr. RICH. To the House generally. I may say to the gentlemen of the Committee on Ways and Means that I believe you have done about as good a job as you could do in bringing in this tax bill. I do not like it. I do not want to vote for it. It is going to punch me right in the ribs, but I am going to vote for it because I am going to try to save this Nation if I possibly can. The only way you can do that—I want to impress this on you, as I have tried to do for 8 years—is to stop your spending and use a little common sense. I have tried to vote every time I could to cut expenses, but I have gotten very little help over here.

Mr. BUCK. I do not wish to be disrespectful to the gentleman, who is a member of the Committee on Appropriations, but may I say that all the Committee on Ways and Means is trying to do is to bring in revenue to pay for the appropriations which the gentleman's committee makes.

Mr. RICH. You will never catch up with us, I am sorry to say. The House of Representatives is too good at spending for you to do that. I want them to do that. I would like for the Ways and Means Committee to keep up with the Appropriations Committee. I agree with that sentiment 100 percent, but as our friend, the gentleman from Tennessee [Mr. COOPER], has said, the Appropriations Committee is only acting for the House and if they are going to pass all these appropriation bills, you have got to go to the people and make them pay. I want to make them pay now so the people will kick out of the Congress a lot of these spenders. This is the only way you can stop such spending. I do not say this with any disrespect for any Member of the House, but I say it because I am trying to do my duty as an honest, conscientious American citizen, and if the people do not like me because I have voted to keep from spending their money, and now I am going to vote to tax them, then I say to them that I am simply trying to save the liberty which the American people have enjoyed for 150 years. This is more valuable than their pocketbooks and is more important than any money they have ever had.

Mr. COOPER. Mr. Chairman, will the gentleman yield?

Mr. RICH. I yield to my colleague, the gentleman from Tennessee.

Mr. COOPER. Does not the gentleman agree that we ought to begin one step further back and watch these authorizations that we vote on here in the House, because after the authorization is voted, then they come to the gentleman's Committee on Appropriations and say that you have authorized it and now you have got to appropriate the money.

Mr. RICH. The gentleman is absolutely correct. I hear many Members of the House say in speaking of an authorization, "This is not going to cost anything, because it is just an authorization." When a man tells me that I feel like asking him whether I look that dumb. I would not want to insult him, but I always feel like making that remark to him because he knows in his own heart that it will only be a short time until he will be before the Appropriations Committee or the Budget Bureau or the President trying to get the money to put the authorization into effect.

Mr. COOPER. He wants the authorization so he can get the appropriation.

Mr. RICH. The gentleman is absolutely right.

[Here the gavel fell.]

Mr. CARLSON. Mr. Chairman, I yield the gentleman 3 additional minutes.

Mr. RICH. I now want to say a word about the provision with respect to joint income-tax returns. I do not like that provision, and it distresses me very much that I shall have to vote for that, too. I have received letters and telegrams from my people asking me to vote against it, and some of them are my best friends. But when I think of eight States and the number of people in those States who can take their salaries and earnings and divide them up and make two income-tax returns, it seems to me it is not right or just or honest. If we are going to permit these eight States to have that privilege, then I wish we could permit everybody in every State to have the same right, and I understand there is going to be an amendment offered giving us a chance to vote on that. I am going to vote first to include these eight States, and, if I cannot accomplish that, then I am going to vote to include every State and treat them all alike, because, as long as I am in Congress, I want to do the right and honest and just thing to everybody in every State in the United States. This is what I am going to try as long as I am in Congress. The people back home can wire me and ask me to do a certain thing, but if I believe it is wrong then I am not going to vote for it.

Mr. GEARHART. Mr. Chairman, will the gentleman yield?

Mr. RICH. I yield to the gentleman from California.

Mr. GEARHART. According to the last figures we have been able to obtain, the advantage or the tax saving to taxpayers who live in the community-property States amounts to $40,000,000.

Mr. RICH. I have been told that it amounts to $335,000,000, and we have got to get that $335,000,000, and I am going to help to get it.

Mr. GEARHART. I believe we are talking about different things. The saving is nothing like that. I say that according to the last figures we have been able to obtain the savings to the taxpayers in the community-property States amount to $40,000,000 each year. We are now writing a $13,000,000,000 tax bill, including the other tax levies that are still in effect. This means that the saving that everybody is so excited about in all of the community-property States constitutes but two-tenths of 1 percent of the total tax collections for 1941–42. It is nothing to get excited about. If compulsory income-tax returns are to be required the charge should be justified on other grounds.

Mr. RICH. Mr. Chairman, I believe in taxes, but I think that the first thing we know we are going to break down industry and break the American people. We will either have to stop spending or we will have to levy more taxes. This will bring about a terrible situation, because we are now in very bad financial shape.

The following are some 1940 tax facts with respect to 165 American corporations:

1940 TAX FACTS REVEALED BY SURVEY OF AMERICAN INDUSTRY OF 165 CORPORATIONS

Gross assets of 165 representative American corporations totaled $44,975,000,000 in 1940.

Total capital stock of these 165 companies outstanding in 1940 aggregated $16,811,000,000.

Number of employees of these 165 corporations (average for the year 1940) was 3,490,000.

Total net income, after taxes, of these companies in 1940 was $2,023,000,000.

Total taxes for 1940 (all kinds, Federal, State, and local) of the 165 companies included in this tabulation amounted to $2,565,000,000. (This does not include the portion of social-security taxes that employers are compelled by law to withhold from workers and pay to the Federal Government.)

Dividends on common stock paid by these 165 companies in 1940 amounted to $1,247,000,000. (Twenty-six of the companies listed paid no dividends in 1940 to their common stockholders.)

SALIENT POINTS BROUGHT OUT BY THESE STATISTICS

1. Total taxes paid by these 165 companies for the year 1940 amounted to approximately 56 percent of net earnings, before taxes.

2. Taxes for 1940 were equivalent to $3.92 per share of common stock, whereas dividends paid amounted to only $1.91 per share of common stock. In other words, these companies paid more than twice as much in taxes per common share as they paid in dividends.

3. Compared with 1939, total taxes paid for 1940 increased almost 30 percent, but net earnings (after taxes) increased only 17½ percent in the same period.

4. Taxes for 1940 of these 165 companies were equivalent to $451 for every owner of common stock, and to $735 for every employee.

5. The average number of shares of common stock owned by each stockholder was 115.

Mr. COOPER. Mr. Chairman, I yield 10 minutes to the gentleman from Louisiana [Mr. SANDERS].

Mr. SANDERS. Mr. Chairman, I have followed the course of this debate very attentively, and I wish at this time to pay tribute to the very splendid manner in which the Ways and Means Committee have performed a very onerous task. As other speakers have said, it is utterly impossible to bring in a popular tax bill, but the Ways and Means Committee in this instance has given their best attention to suggestions that have been laid before them, as I know, and they have, in my opinion, done a very fine job. That does not mean that I necessarily agree with every conclusion they have come to. It is rather impossible to conceive that all of the 435 Members of this House will agree among themselves on any one, or two, or three measures, certainly not a tax bill. There are a few things in this bill that I do not approve. I intend to vote for it. I am not going to vote for the joint-return feature of the bill. I shall vote to eliminate it, but whether it is eliminated or not I shall vote for the measure as it is presented to the House in its final form, because in common with most of the other Members of this House I recognize the fact that the tremendous appropriations for national defense we have been making can be met in no other way than by taxation, and this is not the last of the tax measures that the Ways and Means Committee must report to this House. We must make up our minds to that effect and support those measures in the best form that can be presented to the public from time to time.

Mr. PATRICK. Mr. Chairman, will the gentleman yield?

Mr. SANDERS. Yes; for a question.

Mr. PATRICK. Does the gentleman propose to give his reasons for not supporting the joint-return feature of the bill?

Mr. SANDERS. As much as I can in the brief time that I have.

Mr. PATRICK. Will the gentleman please state why he is opposing it?

Mr. SANDERS. I propose to do that, but I cannot cover it fully in the time that I have. First, let me make it plain that it is not the amount of money involved. I am willing to vote for any tax and in any amount that may be necessary for the defense of the country, and the people whom I represent, the people affected by this joint-return feature—and, of course, I speak for my own section of Louisiana only—will be entirely willing to pay any amount, but we do object to this particular feature of the bill because we feel that it is in the bill due to a misconception of the situation.

Mr. PATRICK. Does the gentleman believe that the burden will fall on those least able to pay if that amount of money is lost through this feature being stricken out?

Mr. SANDERS. Not necessarily. That depends upon this and other tax bills.

Mr. LEAVY. Mr. Chairman, will the gentleman yield?

Mr. SANDERS. Yes.

Mr. LEAVY. As a Member coming from a community-property State, as a matter of fact the joint return destroys the community-property law of the States where they have enacted such a law under their sovereign right and it is, therefore, unconstitutional.

Mr. SANDERS. I agree with the gentlemen, and have been giving opinions to that effect to my clients in Louisiana for 20 years or more. I doubt if I can convey to Members from a noncommunity property State what we mean by community property. I do not propose to try. I went to a law school and I studied the measure for 3 years, and when I graduated I had a very vague idea about it, and I have been studying it ever since. There are still lots of things that I do not know about community property. I can say some of the things that it is not. Of course, I speak of the law of the State of Louisiana. I let the Members from other States speak for those States. Our community property law is not a matter of tax evasion. Speaker after speaker has spoken of community property laws as though they constituted a scheme devised for the purposes of evading taxes. Let me read to you from the report of the majority of the committee, just a line, on page 12, near the bottom of the page:

If husband and wife can so arrange their affairs that the wife is in receipt of a portion of the income, income taxes can be considerably reduced.

And so forth. Every speaker who has spoken on this matter in favor of the joint-return feature of the bill, without exception has spoken as though, in the language of this report, it is a measure devised for the purpose of reducing the income tax that these people have to pay.

Mr. COOPER. Mr. Chairman, will the gentleman yield?

Mr. SANDERS. Yes.

Mr. COOPER. Of course, that reference in the report applies not only to States having community property laws, but it is also applies to the other 40 States where the very thing can be done that the report says.

Mr. SANDERS. I grant you that, but I specified that I was speaking, of course, only for the section from which I come. In that connection, let me say that I doubt if this feature of the bill will affect the community-property States as much as it will the other States. My information is, and I hope some member of the committee will correct me if I am in error, that a total of $325,000,000 will be raised by this feature of the bill, only $20,000,000 of which will come from the community-property States. I doubt the constitutionality of it as it applies to those individuals who reside in the community-property States.

Mr. CROWTHER. Will the gentleman yield?

Mr. SANDERS. I yield briefly.

Mr. CROWTHER. Let me say that as one member of the committee, I did not consider it particularly as an evasion. Tom Adams, the great expert, said to me there are two methods of dodging taxes, illegal invasion and legal avoidance. I consider it in the classification of legal avoidance.

Mr. SANDERS. I would like to answer the gentleman. How can this be considered as legal avoidance of an income tax?

Mr. CROWTHER. Will the gentleman yield further?

Mr. SANDERS. Let me proceed just briefly on that.

Mr. CROWTHER. Legal avoidance.

Mr. SANDERS. But how can it be legal avoidance?

Mr. BUCK. Let me just ask you what does the sixteenth amendment give the Congress the power to tax?

Mr. SANDERS. Incomes, according to my understanding.

Mr. BUCK. Then you are going to read something defining "income." States can define marital status and assign income to each spouse, and then the income is individual income—is it not—and must be taxed so, instead of building up a fictitious pyramid, which your committee is trying to do.

Mr. SANDERS. That is my understanding. Article 2399 of the Louisiana Civil Code is the article providing for—

Community of acquets and gains; stipulation against required. Every marriage contracted in this State, superinduces of right partnership or community of acquets or gains, if there be no stipulation to the contrary.

Then follows an entire section of the Louisiana Civil Code, of many pages, amplifying that provision and the rights of the various parties thereto. That is the Code of 1870. Prior to the Code of 1870 we had the Code of 1812, and prior to that we had other codes. Every one of them contained a similar provision, even prior to the admission of Louisiana to statehood. This was a part of the law of the land. This was part of the background on which families were established, long before the income tax was ever dreamed of in this country. How can gentlemen get up on the floor of this House and speak of an attempt to evade——

[Here the gavel fell.]

Mr. COOPER. Mr. Chairman, I yield the gentleman 2 additional minutes.

Mr. SANDERS. How can gentlemen get up here and speak of an attempt to evade, either legally or illegally, in face of the fact that this has been the law of the State of Louisiana since before Louisiana was a State?

Mr. CROWTHER. The gentleman's argument strengthens my point that it is legal avoidance. He has proved it.

Mr. SANDERS. It certainly was not in contemplation of the income tax that this provision of the Louisiana Code was adopted. You must recall that there is before this House, and this debate proves it conclusively, two concepts of "family." You have the people who came from Great Britain and the other islands of that group who brought with them to this country the common-law idea that the husband and wife were one, and the husband was that one. As they spread westward they brought that idea with them, and this basic idea continued to prevail in the common-law States, though it has been subsequently modified by statutes in many States. But in the civil-law States we have an entirely different attitude toward "family." In Louisiana, Mr. Chairman, a wife does not inherit one-half of her husband's property. She has it as a matter of right. She has it because she is a wife and a part of that community, and when you say that she must add her income to his you are depriving her of the right that she is an individual in her own right. A wife and a mother in Louisiana is not a hired housekeeper or kitchen helper. She is equal owner in the community, and we submit that in this respect the civil law has contributed something to the dignity and the sacredness of married life and of family life.

Under the old common law, it was a common saying, all too unfortunately true, that women were in the same class with lunatics and criminals. As such, they had no rights. Through many decades the womanhood of America has been struggling upward in an effort to obliterate civil and political inequality.

In Louisiana, under the civil law, the wife and mother has, for over 150 years or more, occupied a place of equality and dignity with the man of the family. Under our law she is not regarded as a mere chattel who receives an allowance at the whim of her husband. The wife owns an equal interest in the community. She stands on an equal footing with her husband in ownership. This is a vested right, and along with it, and more important than the property right, is married woman's right to be considered as an individual in her own right.

This joint-return feature of the present bill would, in effect, seek to wipe out the distinction between the two people who comprise the community. In effect, it seeks to establish in our law the legal concept that a married couple is not composed of two people, but is one. It is an effort to merge identities, and this is impossible.

The joint-return feature of this bill seeks to ignore the facts. The rights of a married woman and of a married man in the community-property States are based upon the law of those States. This feature of the bill says that two individuals must be treated as one. Under Louisiana law a wife may own property in her own name as a part of her separate estate. The husband is likewise permitted to own property in his own separate estate. Under Louisiana law each owns an undivided one-half interest in all community property; that is, property acquired after the marriage. Now, this ownership is an actual thing. It is not an expectancy; it is not inherited; it already exists. But the joint-return feature of the tax bill ignores the fact of ownership and seeks to create an artificial pyramid of property and income merely for the purpose of putting these people into a higher bracket than the facts of the case permit.

It is the policy of most governments to encourage matrimony, but this feature of the tax bill places a penalty upon it. One of the speakers yesterday spoke of the fact that there was an attempt in this bill to control the production of steel equipment for offices by increasing the tax upon this class of equipment. The theory is, of course, that the more you tax a commodity the less it will be used. Can it be argued that a tax in one part of the bill is put there in the hope that it will bring about a decreased use of the article taxed, without applying that same argument to other items taxed in the bill?

There is no disguising the fact that this is a tax upon marriage. And as such, in my opinion, it is against public policy. The three pivots around which our society moves are the church, the schoolhouse, and the family. We do not tax the church, and we should not for sound reasons of public policy. We do not tax schools, and we should not for sound reasons of public policy. Up to the present we have not taxed marriage, and we should not, and this feature of the tax bill should be eliminated for equally sound reasons of public policy.

[Here the gavel fell.]

Mr. CROWTHER. Mr. Chairman, I yield 10 minutes to the gentleman from Kentucky [Mr. ROBSION].

Mr. ROBSION of Kentucky. Mr. Chairman, I can see very little point in the debate on this tax bill. You bound and gagged yourselves with a gag rule. I voted against the gag rule. About all we can do now is just talk about it. We cannot do anything about it except to vote for or against the bill. No one can offer an amendment except the Ways and Means Committee.

I was a Member of the House in 1921 when the first tax bill was brought in by a Republican Congress. At that time we had all of the high taxes of the first World War. We set about to take many taxes off and reduce others. A great many persons urged that the Treasury would be without money. Our action encouraged and increased business so that at the end of the year instead of being short of money we had a surplus; and then in 10 years there were 5 major tax bills, every one of them carrying a big reduction in taxes. Business thrived. Revenues rolled in and we paid $10,000,000,000 on the national debt.

I wish to call attention to some statements of the President on the question of taxes, spending, and deficits.

He stated in his acceptance speech of July 2, 1932:

> For 3 long years I have been going up and down the land preaching that government costs too much.

And at Pittsburgh, Pa., on October 19, 1932, Mr. Roosevelt declared:

> That (the Hoover spending), my friends, is the most reckless and extravagant pace I have ever been able to discover in the statistical record of any peacetime government anywhere, any time.

He further said in his Pittsburgh speech:

> Taxes are paid in the sweat of every man who labors. If excessive, they are reflected in idle factories, in tax-sold farms, and hence in hordes of the hungry tramping the streets and seeking jobs in vain. Our workers may never see a tax bill, but they pay in deductions from wages, in increased cost of what they buy, or (as now) in broad cessation of employment. * * * Our people and our business cannot carry its excessive burdens of taxation.

In a speech at Sioux City, Iowa, on September 29, 1932, Mr. Roosevelt said:

> I shall use this position of high responsibility to discuss up and down the country at all seasons, at all times, the duty of reducing taxes. * * * This I pledge you, and nothing I have said in the campaign transcends in importance this covenant with the taxpayers of this country.

And he further announced in his Pittsburgh speech:

> Before any man enters my Cabinet, he must give me a pledge—absolute loyalty to the Democratic platform and especially to its economy plank.

In commenting on the alleged wasteful administration of President Hoover, he said in the same speech:

> We find that the expenditure for the business of government in 1927 was $2,187,000,000 and, in 1931, $3,168,000,000.

He condemned this increase of less than $1,000,000,000 in 1931, with a depression on, over expenditures in 1927, when the country was prosperous.

The President, further commenting in his speeches on governmental expenditures, said:

> I regard reduction in Federal spending as one of the most important issues of this campaign. In my opinion, it is the most direct and effective contribution that government can make to business.

The President, in his message to Congress on March 10, 1933, said:

> For 3 long years the Federal Government has been on the road to bankruptcy. For the fiscal year 1931 the deficit was $462,000,000. For the fiscal year 1932 it was $2,472,000,000. For the fiscal year 1933 it will probably exceed $1,200,000,000. * * * With utmost seriousness I point out to the Congress the profound effect of this fact upon our national economy. It has contributed to the recent collapse of our banking structure. It has accentuated the stagnation of the economic life of our people. It has added to the ranks of the unemployed. Our Government's house is not in order. Upon the unimpaired credit of the United States Government rests the safety of deposits, the security of insurance policies, the activity of industrial enterprises, the value of our agricultural products, and the availability of employment. The credit of the United States Government definitely affects these fundamental human values. It therefore becomes our first concern to make secure the foundation. National recovery depends upon it.

The President was 100 percent right then. There would be a different story today if he had kept his pledges and followed the course he advocated in 1932–33. The President appears in those statements as a far-seeing statesman. Taxes are paid in the sweat of everyone who toils and if excessive slow down business and kill enterprise; want and widespread unemployment are seen on every hand. Excessive taxes and spending threaten the Nation's credit, bank deposits, insurance policies, and the faith and confidence of the people. The Republican minority in their report on the tax bill used the following significant language:

The Nation's finances are in a critical state, due to the extravagant spending and reckless borrowing under the New Deal administration during the past 8 years. This condition is now aggravated by the fact that unprecedented outlays for national defense are being required.

It is obvious that a substantial increase in the tax burden is imperative if the credit of the Nation is to be preserved and the defense program is to go forward.

We, therefore, have no alternative but to support the general objective of the bill in seeking to bring revenues and expenditures closer together.

STRONG INDICTMENT

The minority in its report made the strongest indictment ever made against any administration. Are the charges true? We regret to say they are. Mr. Roosevelt condemned the extravagance of President Hoover because he spent $3,168,000,000 in 1931, a hard depression year. What did President Roosevelt do? The following table shows:

The New Deal fiscal record

	Expenditures	Receipts	Deficits	Public debt
Fiscal year—				
1934	$6,011,000,000	$3,116,000,000	$2,895,000,000	$27,053,000,000
1935	7,010,000,000	3,800,000,000	3,210,000,000	28,701,000,000
1936	8,666,000,000	4,116,000,000	4,550,000,000	33,778,000,000
1937	8,177,000,000	5,029,000,000	3,148,000,000	36,425,000,000
1938	7,239,000,000	5,855,000,000	1,384,000,000	37,165,000,000
1939	8,707,000,000	5,165,000,000	3,542,000,000	40,440,000,000
1940	8,998,000,000	5,387,000,000	3,611,000,000	42,968,000,000
1941	12,710,000,000	7,607,000,000	5,103,000,000	48,961,000,000
Total	67,518,000,000	40,075,000,000	27,443,000,000	

President Roosevelt, in his first fiscal year ending June 30, 1934, spent over $6,000,000,000; this was twice as much as Hoover spent in 1931. The Roosevelt Administration has spent $67,518,000,000 up to June 30, 1941, in 8 years. This does not include billions of obligations and guaranties made by the Government. The President denounced the Hoover administration on account of $4,000,000,000 of deficits in the 3 worst depression years. This table shows $27,443,000,000 of deficits in the 8 years of the Roosevelt administration, and his administration has increased the national debt from less than twenty-one billions to fifty billions, and it is going up by leaps and bounds. While the money has not all been spent, yet Congress, in less than 18 months, has appropriated and given contractual authority for fifty-five billions. This includes the bill for $8,100,000,000 recently passed. This huge sum is for national defense, so they claim, yet we have not fired a gun and do not have an Army or air force equipped to fight our own or anybody's war. Congress, in less than 1 year, has increased the debt limit twice, from forty-five to forty-nine billions and then to sixty-five billions, and within another year it will jump to seventy-five or perhaps eighty billions, then on to one hundred billions. We will be called upon in a short time to vote another seven-billion, lend-lease, give-away bill for Russia, Britain, and any country that calls upon our Uncle "Sap" to help them finance their quarrels and wars. That will push our war-spending obligations above sixty-two billions. This will be more than double the actual cost of the World War, when we had 5,000,000 men under arms and sent 2,225,000 men and equipment to Europe. This is all before we get into war. The interventionists say that we must get into the war and it will last from 4 to 8 years and that we must spend forty billions a year. This is the financial picture that confronts the American people.

FIVE HUNDRED AND FIFTY PERCENT INCREASE IN TAXES

The last years of Hoover's administration there were collected about two billion of Federal taxes; under the present law there will be collected by the Federal Government about nine and one-half billion. The bill before us increases the taxes three and one-half billion, so that the American people will have to dig up thirteen billion in Federal taxes for this fiscal year. That means an average annual tax of $100 for every man, woman, and child in the United States or $500 for the average family of five. This is an increase of 550 percent over the last year of the Hoover administration. With this great increase there will be a deficit this year of thirteen billion. This three and one-half billion is a big increase in taxes, but it is only one-fourth of the amount we will give away to Russia, Britain, and other warring nations. This is the fourteenth tax bill brought in by this administration in a little over 8 years. We are told that we must pass another tax bill this winter. It will be imperative, and they say it will likely carry a sales tax and an increase in the taxes we now have. Of course, when this war is over these excessive taxes will paralyze industry and business. These are the heaviest taxes ever levied by this Nation in war or peace, and by the man who denounced Hoover for collecting two billion a year from the American people.

I have opposed the many taxes urged by the President, because they have not used the taxes to protect the credit of the Nation. They tax and squander and borrow and spend. The more we give them, the more they squander and spend. How long will the American people submit to this policy? The President said taxes are paid in the sweat of every one who toils. The common people pay the great bulk of the taxes. The direct and indirect taxes in this bill cover everything consumed and for all services from the cradle to the grave, and includes a use tax of $5 on each motor vehicle. The model T Ford and the Lincoln pays the same $5 tax. Railroad and bus tickets are taxed. Many other new taxes and many old taxes are more than doubled. We need taxes for national defense and to run the Government, but that is no reason why billions should be wasted, squandered, and given away to any nation that asks for the American taxpayers' money. They are flocking into Washington from all parts of the globe. We have become the Santa Claus for the world. Harry Hopkins of W. P. A. fame, is telling them to come and get it.

WILL MEAN BANKRUPTCY

When we entered the other World War our national debt was a little over one billion. If we enter this war now, our national debt and contractual obligations will exceed sixty billions. We would have to finance at least 75 to 80 percent of the war by immediate taxes. That would mean that we would have to increase our annual revenues by at least seven to ten billion. I am opposed to our Nation becoming an active belligerent in the present war, as it would mean unbearable taxes, complete bankruptcy of our Nation, a great lowering of our standard of living, and likely the loss of our liberties as well as great loss of human life and suffering.

Before we plunge this Nation into the greatest and bloodiest war in all the history of the world, let us not forget the sacrifices it will impose upon the American people in debts and taxes, and the blood and tears of sons and fathers and mothers of this Nation. Defend this Nation, yes; but avoid the quarrels and wars of the nations of Europe, Asia, and Africa.

Mr. CROWTHER. Mr. Chairman, I yield 10 minutes to the gentleman from Tennessee [Mr. JENNINGS].

Mr. JENNINGS. Mr. Chairman, "Willful waste makes woeful want." And now, after 7 years of spending by the Federal Government after the manner of a drunken sailor, the American people are saddled with a debt and burdened with a load of taxation that staggers and terrifies the mind of man.

In 1917, when the United States entered the first World War, the national debt was a little more than a billion and a half dollars. At the end of that war the national debt was, in round numbers, $26,000,000,000. Under the three Republican administrations between 1921 and 1933 the national debt was reduced to $16,000,000,000. Since 1933 the Nation's debt has steadily climbed. Today it is more than $49,000,000,000, including $16,000,000,000 of the first World War debt. During 1940 and 1941 the Congress has appropriated for defense and for aid to other nations the staggering sum of $52,000,000,000, and this is only a starter.

The expenditures of the National Government for the fiscal year ending June 30, 1942, will be more than $23,000,000,000. Federal income from all sources

during that year will be $13,000,000,000. At the end of this fiscal year the Government will have a deficit of $10,000,000,000. Thus we are going in the red at the rate of almost a billion dollars a month.

By the lease-lend bill this country has given and is now giving away $7,000,000,000. By this bill we are seeking to raise three and one-half billion dollars, only one-half of the $7,000,000,000 given away and to be given away under the lease-lend bill. No government ever before undertook to raise by taxation from its people within a single year such a stupendous sum.

Inflation, born of the cheapening of our money and the increasing spiral of higher prices for all of the necessities of life, attended with all the miseries that follow in its wake, is impending; and, looming on the horizon, the ever-increasing load of oppressive, regulatory, punitive, and confiscatory taxation is stifling free enterprise, laying the ax at the roots of private ownership of property and threatening the security and growth of industry and the freedom and prosperity of our farmers. The specter of bankruptcy and insatiate taxation threatens all alike. It hangs like a pall above every gainful occupation; it is a skeleton in the closet of every home and stands with grim and forbidding mien above every cradle in the land.

And now, by the joint return of husband and wife living together, required by this proposed act, the Federal Government, for the first time, declares the marital relation to be a taxable privilege. The family, our unit of society, the foundation of our civilization, the origin of life, the fountain of our national existence, is to be penalized. The man and the woman who are lawfully wed, who are faithful to each other, who by sacrifice, industry, thrift, and leading decent lives build the American home, are to have laid upon their shoulders a burden greater than they would severally bear did they not marry or if, after marriage, they separated and broke up their home. Thus is fidelity penalized and perfidy rewarded.

This proposal is nothing more or less than a tax on the marriage relation. Upon the marriage of a man and woman, each of whom own income-producing property, or each of whom earn incomes, they come under the ban and are subject to the burdens and penalties of this provision. If they remain single, or if, after marriage, they throw aside their vows and obligations, they may escape the burdens of this proposed enactment. It is no answer to say that a man or woman who will avoid marriage or cast aside its obligations to escape this added tax burden is an unworthy member of society. Society passes laws to buttress and uphold the marriage relation and to foster and maintain the perpetuity and sanctity of that relation. Above the rooftree of the home is suspended the shield of the law's protection. Across its threshold the marauder may not come to disrupt and to destroy. To secure its existence, the welfare and support of a man's family are put above the rights of his creditors to the extent that he may not be stripped of all his property. In my State, a homestead of the value of a thousand dollars is exempt and free from the levy of execution for debt. The head of every family is entitled to this exemption. The household furniture, his wages and salary are exempt to a certain extent. So are the tools of his trade and the work stock and implements with which he may till his farm.

Under the Federal income-tax law a married man is very properly allowed an exemption of $2,000 and $400 for each dependent, as defined in the act. On social and moral grounds the joint income requirement is indefensible.

But it is said that certain rich men create trusts that are mere colorable, fraudulent devices by which they split up income among members of their family, but the control and enjoyment of which they retain and enjoy. But such subterfuges will not stand up in court. They do not withstand the acid test of the law. This has been demonstrated in the cases of *Burnett* v. *Wells* (289 U. S. —), and *Helvering* v. *Clifford* (309 U. S. —).

And in addition to this, by a gift tax, such transfers can in most instances be reached.

It is not necessary to burn the barn to get rid of the rats. In the long run, it is not helpful nor healthful to exterminate the taxpayer. Heretofore the Government has annually sheared the taxpayer—now, not satisfied with the fleece or a goodly portion of it, we propose to skin him.

If this keeps up, the taxpaying species of the genus homo, like the dodo and the passenger pigeon, will become extinct. One of the most alarming features of the present situation are the gaunt, gray wolves of state socialism furtively moving behind the scenes, more bent on changing our form of government into a socialistic state than in building a national defense or in preserving our way of life. The ultimate extinction of the taxpayer and consequent loss of taxes is an end devoutly to be wished in their philosophy. The Government would then own everything, as in Russia, or take virtually all, as in Germany. To this end we are rapidly approaching. So much for the moral and social aspects.

The joint return is violative of the fifth amendment to the Constitution of the United States, which provides—

> No person shall * * * be deprived of life, liberty, or property, without due process of law.

This provision, which is similar in terms and intent to the fourteenth amendment of the Federal Constitution, is designed to protect the citizen against the violation of these rights by the Federal Government. The fourteenth amendment is designed to protect the citizen against similar wrongful invasions and violation of these rights by the several States. The pertinent part of the fourteenth amendment is in these words:

> No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws.

By the sixteenth amendment to the Federal Constitution, it is provided:

> The Congress shall have power to levy and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration.

By article 1, section 8, of the Federal Constitution, it is provided:

> The Congress shall have power to levy and collect taxes, duties, imposts, and excises * * * but all duties, imposts, and excises shall be uniform throughout the United States.

The ninth amendment to the Federal Constitution is in these words:

> The enumeration in the Constitution, of certain rights, shall not be construed to deny or disparage others retained by the people.

The tenth amendment provides:

> The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively or to the people.

In the proposed enactment of this joint income return by husbands and wives, with what are we dealing? There is but one answer, we are dealing with the marital status and the rights of married persons. Is this status fixed and are these rights determined by Federal or by State statutes? There is but one answer to this question. This status and these rights are fixed and determined by the laws of the several States.

A State may sanction and recognize a common-law marriage. A State, as does the State of Tennessee, may prescribe certain statutory requirements—a health certificate, a marriage license, a bond, the performance of the marriage ceremony by one authorized by law to perform the marriage rites, and due return of the license with a certificate that the ceremony has been performed.

The several States also may define and safeguard the property rights of both the husband and the wife.

Under the common law, as formerly in force in many States of the Union, marriage reduced the wife to a state of servitude, stripped her of ownership and control of her personal property, and classified her with children of immature age and with idiots. She could not sue or be sued. She could not contract or be contracted with. Under the outmoded and little more than cave-type principles of the common law her husband, as her liege lord, had the right to inflict corporal punishment upon her short of an assault constituting a felony. The first step toward the emancipation of women in many States was embodied in such a statute as this:

> If any person commits an assault and battery upon his wife, for any cause whatsoever, he is guilty of a misdemeanor and punishable accordingly.

This was the first forward step taken with respect to the rights of married women in many States. In Tennessee, as in most of the other States of the Union, a statute removing the disabilities of coverature has been enacted. I quote the statute of Tennessee, because it is

similar in terms to those enacted in most other States of the Union:

Married women are fully emancipated from all disability on account of coverature, and the common law as to the disability of married women, and its effects on the rights of property of the wife, is totally abrogated, except as set out in the following section and subsequent sections; and marriage shall not impose any disability or incapacity on a woman as to the ownership, acquisition, or disposition of property of any sort, or as to her capacity to make contracts and to do all acts in reference to property which she could lawfully do if she were not married; but every woman now married, or hereafter to be married, shall have the same capacity to acquire, hold, manage, control, use, enjoy, and dispose of all property, real and personal, in possession, and to make any contract in reference to it, and to bind herself personally, and to sue and be sued with all the rights and incidents thereof as if she were not married.

This act, as modified, was carried into the 1932 Code of Tennessee, and is the law of that State. Under the common law, prior to the enactment of this and similar statutes, it was held by the supreme court of my State:

It is the general rule at common law that marriage amounts to an absolute gift to the husband of all personal goods of which the wife is actually or beneficially possessed at the time of the marriage, or which come to her during coverture.

By the above cited and similar statutes, a woman, by marriage, loses none of the rights with respect to the ownership, control, and enjoyment of her property which she had as a single woman prior to her marriage. So that it follows, when a woman about to enter into marriage stands upon the threshold of matrimony, she is clothed with all the rights of a feme sole. By the marriage she loses none of these rights, but retains them all. Therefore, in contemplation of law, by the letter and spirit of the law, husband and wife are two distinct, separate, legal entities, and any attempt by Federal law to interfere with this status or to infringe on these property rights of a married woman forcing a joint income-tax return, and thereby increasing her taxes is an illegal trespass upon the rights of a married woman, is a violation of article 1, section 8, of the Federal Constitution, which provides for uniform taxation throughout the United States; is a violation of the ninth and tenth amendments to the Constitution, and a bold, bald invasion of the reserved powers of the States and the people of the States. It is a violation of the due process clause as contained in the fifth amendment to the Constitution of the United States.

I have read the argument contained in the report dealing with this proposed requirement of a joint return, and the consequent unjust and illegal increase of taxes required of husband and wife. And I have examined the authorities there cited in the argument advanced in favor of the constitutionality of this proposed enactment. This argument seeks to brush aside, and, by weasel words, to suck the life out of the holding of the Supreme Court in the case of *Hoeper* v. *Tax Commission* (284 U. S. 206); opinion by Mr. Justice Roberts. It is ingeniously and speciously argued that the Hoeper case "has no authority in the field of Federal income taxation," and that its vitality as an effective limitation upon the taxing power of the States has been dissipated by more recent decisions of the Supreme Court, which it is claimed have undermined its foundations.

No decision of the Supreme Court of the United States has ever overruled the holding in the Hoeper case, and none of the cases cited in support of this proposition are controlling, nor are they in point. An amazing feature of the argument directed at the soundness of the Hoeper case is the statement:

It may fairly be predicted that if the Supreme Court were presented today with the question presented in the Hoeper case that that case would not be followed.

This is an amazing statement. Surely it cannot be said that anyone is authorized to say in advance of a decision by the Supreme Court of the United States what its holding would be. No man can thus speak by the card and thus remove the ancient landmarks which the founding fathers have set with respect to the reserved powers of the States and with respect to the property rights of the citizen, as guaranteed by the fifth amendment to the Constitution, and with respect to the requirement for uniform taxation throughout the country, as required by section 8, of article I, of the Constitution. Nor is the opinion in question to be narrowed by the construction sought to be placed upon it. The decision in the Hoeper case did not turn wholly upon "the provision that each person whose income was included in the tax computation was liable for the entire tax." The language of the court refutes this limited construction and criticism. We quote from the decision itself:

At common law the wife's property, owned at the date of marriage or in any manner acquired thereafter, is the property of her husband. Her earnings and income are his, he may dispose of them at will, and he is liable for her debts. Were the status of a married woman in Wisconsin that which she had at common law, the statutory attribution of her income to her husband for income tax would, no doubt, be justifiable. But her spouse's ownership and control of her property have been abolished by the laws of the State. Women are declared to have the same rights as men in the exercise of suffrage, freedom of contract, choice of residence for voting purposes, jury service, holding office, holding and conveying property, care and custody of children, and in all other respects.

The provisions of the Wisconsin act emancipating women are substantially those of the Tennessee statute above quoted.

Discussing this statute, and the rights of the husband and wife thereunder, the Supreme Court of the United States further said:

Since, then, in law and in fact, the wife's income is in the fullest degree her separate property and in no sense that of her husband, the question presented is whether the State has power by an income-tax law to measure his tax, not by his own income but, in part, by that of another. To the problem thus stated, what was said in *Knowlton* v. *Moore* (178 U. S. 41, 77), is apposite:

"It may be doubted by some, aside from express constitutional restrictions, whether the taxation by Congress of the property of one person, accompanied with an arbitrary provision that the rate of tax shall be fixed with reference to the sum of the property of another, thus bringing about the profound inequality which we have noticed, would not transcend the limitations arising from those fundamental conceptions of free government which underlie all constitutional systems."

We have no doubt that, because of the fundamental conceptions which underlie our system, any attempt by a State to measure the tax on one person's property or income by reference to the property or income of another is contrary to due process of law as guaranteed by the fourteenth amendment. That which is not in fact the taxpayer's income cannot be made such by calling it income. Compare *Nichols* v. *Coolidge* (274 U. S. 531, 540).

It is incorrect to say that the provision of the Wisconsin income-tax statute retains or reestablishes what was formerly an incident of the marriage relation. Wisconsin has not made the property of the wife that of her husband, nor has it made the income from her property the income of her husband. Nor has it established joint ownership. The effort to tax B for A's property or income does not make B the owner of that property or income, and whether the State has power to effect such a change of ownership in a particular case is wholly irrelevant when no such effort has been made. Under the law of Wisconsin the income of the wife does not at any moment or to any extent become the property of the husband. He never has any title to it, or controls any part of it. That income remains hers until the tax is paid, and what is left continues to be hers after that payment. The State merely levies a tax upon it. What Wisconsin has done is to tax as a joint income that which under its law is owned separately and thus to secure a higher tax than would be the sum of the taxes on the separate incomes.

The Court then held that the Wisconsin statute seeking to compel a joint-income return by husband and wife and to exact a higher tax from both thereby, could not be upheld on the ground that it was necessary to prevent frauds and evasions of the tax by married persons. And it replied, in its own language used in the case of *Schlesinger* v. *Wisconsin* (270 U. S. 230):

"That is to say, 'A' may be required to submit to an exactment forbidden by the Constitution if this seems necessary in order to enable the State readily to collect lawful charges against 'B.' Rights guaranteed by the Federal Constitution are not to be so lightly treated; they are superior to this supposed necessity. The State is forbidden to deny due process of law or the equal protection of the laws for any purpose whatsoever."

The claimed necessity cannot justify the otherwise unconstitutional exaction.

The Supreme Court, in its opinion, overruled the second reason assigned as a justification for the imposition of a tax, on the ground that it was a regulation of marriage. And in overthrowing this contention, it used this pertinent language, which applies with equal force to the proposed enactment now under consideration:

This view overlooks several important considerations. In the first place, as is pointed out above, the State has, except in its purely social aspects, taken from the marriage status all the elements which differentiate

it from that of the single person. In property, business, and economic relations they are the same. It can hardly be claimed that a mere difference in social relations so alters the taxable status of one receiving income as to justify a different measure for the tax.

The Court further held that the act did not purport to regulate the status or relationship of any person, natural or artificial; that arbitrary and discriminatory provisions in an act cannot be justified by calling them special regulations of the persons or relationships which are the object of the discrimination. And the Court concluded: "The action is arbitrary and is a denial of due process."

Can it be said that the highest court in the land will extend the protection afforded to the citizen against the violation of his fundamental rights as guaranteed by the Constitution as a whole, and especially by the fourteenth amendment, from an illegal invasion of those rights by the States, and that in the next breath, it will withhold the protection afforded the citizen by the fifth amendment against a similar invasion and trespass upon his constitutional rights by the Federal Government?

The unique argument is advanced in favor of this proposal that these provisions of the Federal Constitution may be brushed aside if it may appear that there are sufficient justificatory facts. It has been said that bad cases make bad law. But it cannot be asserted that the mere need of the Federal Treasury for more taxes justifies nullifying the provisions of the Federal Constitution. The opinion of the Supreme Court of the United States, in the case of *Poe* v. *Seaborn* (282 U. S., p. 101), also supports the views here advanced. In that case, under the law of the State of Washington, it was held that the husband and wife, by virtue of the community-property law of that State, were entitled to make separate returns, each making a return on one-half the income of both, and each paying on his and her respective share of that income. In that case the Supreme Court said:

> When it is remembered that a wife's earnings are a part of the community property equally with her husband's, it may well seem to those who live in States where a wife's earnings are her own, that it would not tend to promote uniformity to tax the husband on her earnings as part of his income. The answer to such argument, however, is, that the constitutional requirement of uniformity is not intrinsic, but geographic. *Billings* v. *United States* (232 U. S. 261); *Head Money Cases* (112 U. S. 580); *Knowlton* v. *Moore* (178 U. S. 41). And differences of State law, which may bring a person within or without the category designated by Congress as taxable, may not be read into the revenue act to spell out a lack of uniformity. *Florida* v. *Mellon* (273 U. S. 12).
>
> The district court was right in holding that the husband and wife were entitled to file separate returns, each treating one-half of the community income as his or her respective income, and its judgment is affirmed.

This case expressly gives effect to the status of married persons and their property rights as determined by the law of the State in which they reside.

We, therefore, conclude that the proposal is not only wrong in principle, contrary to public policy, but that it is violative of the supreme law of the land, and should be defeated.

For these reasons I shall vote against it.

Mr. COOPER. Mr. Chairman, I yield 5 minutes to the gentleman from Washington [Mr. LEAVY].

Mr. LEAVY. Mr. Chairman, I am very much tempted to discuss this issue of joint or separate returns, but in the limited time I have I am going to pass that and, when we come to the amendment that I understand will be offered later, I shall discuss it then.

There are two other features of this bill I wish to discuss. What I have to say is not said in criticism of the Committee on Ways and Means. They have labored long and faithfully and have brought to us a bill that doubtless is the best they could get under the circumstances. Nevertheless, there are two features of this bill that I desire to call to the attention of the Members. I mentioned them yesterday briefly in interrogating a member of the committee, the gentleman from Missouri [Mr. DUNCAN]. One is the new tax that is levied on outdoor advertising and the other is the new tax that is levied upon the radios of America.

This, apparently, is the first time that this type of tax has ever been written into a tax bill, and yet in an examination of nearly 2,000 pages of hearings you will find that the two groups whose business and property is being vitally affected had little, if any, opportunity to present their side of the case. But even aside from the fact that they had no opportunity to be heard, the tax provisions seem extremely discriminatory, doubtless unintentionally so on the part of the committee. Still the fact remains that billboards and radio, when used as advertising media, are being subjected to a burden not placed on other business.

There are three great mediums of advertising, the newspapers, magazines and kindred publications, the billboard and the radio. The tax is levied here on the last two named, and the first, the printed page, is entirely omitted. I am not here to say that it is wise to tax any of the three, but if you do tax any one, they ought all to be taxed, otherwise the power to tax, whether intentionally or unintentionally, has become the power to destroy. I am sure that no feature of this bill was written with the thought that one type of business would profit at the expense of the other, because that theory or philosophy of tax is unsound, still that result will obtain if the provisions I have mentioned remain in the bill.

I hold no brief for billboards. I am just as much put out with some of them as anyone could be, but, after all, the matter of billboard policing and regulation is not a Federal tax matter, it is a matter peculiarly belonging to the States, just as is the matter involving separate and joint returns in community-property States.

I understand the committee is going to offer an amendment later, when we read the bill, in reference to billboard advertising that is going to change the schedules of rates that have been set up here, but I would like to suggest respectfully to the committee that in offering such amendment they also consider the special penalty that is inflicted by the terms of this bill upon persons who have to pay a tax on billboards, since no such penalty is inflicted upon any other taxpayer. The billboard operator is subjected, under the terms of this legislation, to all general penalties in the various revenue laws, and then for every single violation in this act—and, mark you, this is a new field of taxation, and much interpretation needs to be done upon it—he is required to pay a $50 penalty in addition to the regular penalties. It does seem to me it is unfair to single out a group who are in a legitimate business, whether we like it or not, and say to them that you are a suspicious type of character and we expect to penalize you greater than any other taxpayer in the entire group.

Mr. GEARHART. Will the gentleman yield?

Mr. LEAVY. I yield to the distinguished gentleman from California.

Mr. GEARHART. I simply want to express my approval of the point the gentleman is now making. I do not think the matter was adequately investigated. It was put into the bill at the very last minute by the Ways and Means Committee without any consideration. This is one point I think we completely overlooked, and I think we ought to give every consideration to it now. The outdoor billboard people have donated thousands of boards that are now in use to advertise the sale of United States defense bonds and for many other public services, and under this proposed law they will be required to pay out of their own pockets, without a single cent of profit, this tax on the space occupied in such patriotic and civic services.

Mr. LEAVY. I appreciate the gentleman's contribution and trust when the Ways and Means Committee, of which the gentleman is an important member, offer an amendment on billboard tax that they will follow his sound suggestions to eliminate some of the blighting effects this tax will have on a recognized and legitimate business.

[Here the gavel fell.]

Mr. COOPER. Mr. Chairman, I yield 5 minutes to the gentleman from Louisiana [Mr. BROOKS].

Mr. BROOKS. Mr. Chairman, I asked for this time to follow along the line of the discussion pursued by my friend who just preceded me. I want to speak especially in reference to the radio and the billboard advertising features of this tax bill. I think the committee has worked long, hard, and patiently on the bill, and I think unquestionably, as has been well said in the past, they are entitled to the commendation and thanks of the House. But in reference to the radio and in reference to the billboard-tax provisions, no opportunity has been given for hear-

ing and within the last 2 days I have received numerous protests by telegram and by letter against these two provisions of the bill. The burden of these protests, Mr. Chairman, is that they have not been heard and, in fairness to these people, I think they should have an opportunity to present their views, their facts, and their arguments in support of the proposition that they should not be included in the tax bill.

I have not been able personally to assemble the information myself as to how much money this tax will raise, how it will operate, and how it will affect either the radio or the billboard industry, but I do believe they should be given, so to speak, their day in court, and I am going to ask that at a little later time, after the Committee goes back into the House, that these telegrams that I hold in my hand, all of which are in protest and all of which more or less ask for an opportunity to be heard, be incorporated into the RECORD at this point, so that although the rule which has been adopted in this House will permit no amendment to these stipulations of the bill, yet those interested persons in northwestern Louisiana who wanted to appear and protest will have an opportunity to present their protests in writing at this point in the RECORD and, later on, the Senate may consider them in connection with their own hearing.

Mr. LEAVY. Mr. Chairman, will the gentleman yield?

Mr. BROOKS. I yield to the gentleman.

Mr. LEAVY. Does not the gentleman believe that when the committee offers an amendment to change these schedules on billboard advertising they certainly ought to strike out the special penalty imposed upon people engaged in that business?

Mr. BROOKS. I heard what the gentleman said in that respect, and I am in accord with his viewpoint as to the penalty. I hope and trust my friend the gentleman from California [Mr. BUCK], who is standing before me now, will give that matter thought and consideration and aid us in withdrawing that penalty along with the other features of the proposed compromise in reducing the tax on the billboards.

Mr. BUCK. Mr. Chairman, will the gentleman yield?

Mr. BROOKS. Yes.

Mr. BUCK. I endeavored to inquire of the gentleman from Washington [Mr. LEAVY], and I now inquire of the gentleman, if he is not aware that on the other excise taxes which heretofore have been in existence, a similar penalty for violation is imposed.

Mr. BROOKS. No; but my point, if I may answer the gentleman, is this, that not only the tax but the penalty is there, with no opportunity for adequate expression of opposition to this bill.

Mr. BUCK. I am not talking about that. I think the gentleman may have a point there, but I want to clear up the matter in the mind of the gentleman from Washington [Mr. LEAVY] and the gentleman, that similar penalties exist, and the only reason this was put in was because we were creating a new category of taxes.

Mr. BROOKS. Mr. Chairman, I present to you telegrams received by me from local businessmen and interested firms in reference to these tax provisions:

SHREVEPORT, LA., *July 30, 1941.*

Hon. OVERTON BROOKS,
House of Representatives,
Washington, D. C.:

Bill imposing tax on outdoor and radio advertising, approved by Ways and Means Committee, now before House. This tax is prohibited to these medea and discriminates because it excludes newspapers, magazines, and penalizes radio and outdoor advertising. If passed, this bill will seriously affect our crafts, and we ask your assistance in preventing the passage of this unfair bill.

SHREVEPORT BUILDING TRADES COUNCIL,
STANLEY HERBERT, *Secretary.*

SHREVEPORT, LA., *July 28, 1941.*

Hon. OVERTON BROOKS, M. C.,
House Office Building,
Washington, D. C.:

Bill imposing Federal tax on outdoor and radio advertising, approved by Ways and Means Committee, will go before the House tomorrow for approval. This proposed Federal tax is exorbitant and would wipe out entire profits and many operators. It is also discriminatory against outdoor and radio advertising in favor of newspapers and magazines. The outdoor advertising industry has always been most generous in its contributions of advertising space in times of national emergencies. May we count on your help and protection against this unfair bill.

B. & B. SYSTEM, INC.

DERIDDER, LA., *July 28, 1941.*

Hon. OVERTON BROOKS, M. C.,
Washington, D. C.:

I represent Gulf States Advertising Co., owned by my minor son and his aunt, permanently incapacitated. We have skimped for 4 years to free company of debt. License tax on billboards will absorb all company profits from which we might retire balance of indebtedness. Have always given generously to Government, space, labor, and cost, in supporting advertising all Federal defense projects. Anticipated revenues, this bill, will net only a drop in the bucket to national-defense expense, on contrary, confiscatory on us and will absorb entire profits of our small plant. If revenues were of any appreciable amount we are patriotic enough to gladly forego sacrifice but, obviously, the source has no potential possibilities as it stands and should at least be deferred until some general occupational tax is worked out to cover all businesses instead of just this and radio singled out. Please do what you can to help out, if you can consistently do so. Regards.

W. C. (BILL) FEGUES, JR.

SHREVEPORT, LA., *July 28, 1941.*

Congressman OVERTON BROOKS,
House Office Building,
Washington, D. C.:

Without giving those affected an opportunity of being heard, the Ways and Means Committee recommends bill imposing excessive taxes on radio and outdoor advertising. Your active interest on the floor in righting this wrongful practice and equalizing distribution of taxes would be appreciated.

ED. C. BURRIS,
Shreveport Chamber of Commerce.

SHREVEPORT, LA., *July 28, 1941.*

Hon. OVERTON BROOKS, M. C.,
House Office Building,
Washington, D. C.:

Appropriations bill imposing Federal tax on radio and outdoor advertising approved by Ways and Means Committee now before House. This tax is discriminating because it excludes newspapers and magazines, and penalizes radio and outdoor advertising. We ask your assistance in opposing this unfair bill.

ADVERTISING CLUB OF SHREVEPORT,
FRED BESELER, *President.*

SHREVEPORT, LA., *July 20, 1941.*

Hon. OVERTON BROOKS, M. C.,
House Office Building,
Washington, D. C.:

We ask your assistance in opposing that portion of defense tax bill approved by Ways and Means Committee which proposes prohibitive taxes against radio and outdoor advertising. This bill is discriminatory against radio and outdoor advertising due to the fact that it excludes newspapers and magazines. If passed, it will defeat its own purpose in many instances by wiping out profits of small operators. Outdoor-advertising industry has always been most generous in its contributions of advertising space in times of national emergencies, and stands ready to serve our country again now.

OUTDOOR ADVERTISING ASSOCIATION OF LOUISIANA,
FRED C. BESELER, *Secretary.*

SHREVEPORT, LA., *July 29, 1941.*

Hon. OVERTON BROOKS,
Member Congress, House Office Building, Washington, D. C.:

Bill imposing Federal tax on radio and outdoor advertising approved by Ways and Means Committee now before House. This tax is prohibitive to these media and discriminating because it excludes newspapers and magazines and penalizes radio and outdoor advertising, which would affect our use of same. We urge your assistance in preventing the passage of this portion of the bill.

CECIL WATSON.

SHREVEPORT, LA., *July 28, 1941.*

Hon. OVERTON BROOKS,
Congressman, House of Representatives, Washington, D. C.:

Bill imposing tax on outdoor and radio advertising approved by Ways and Means Committee now before House. This tax is prohibitive to these media and discriminates because it excludes newspapers and magazines and penalizes radio and outdoor advertising. If passed, this bill will seriously affect our craft, and we ask your assistance in preventing the passage of this unfair bill.

ELECTRICIANS LOCAL UNION, No. 194,
R. F. THOMAN, *Business Manager.*

NEW ORLEANS, LA., *July 29, 1941.*

Congressman OVERTON BROOKS,
Congressional Office Building,
Washington, D. C.:

Sincerely hope that you will do all you possibly can to either kill discriminatory tax on radio advertising or have newspapers included. Remember that when Huey wanted to tax newspaper advertising in Louisiana they yelled "bloody murder." They said it was discriminatory. Now the shoe is on the other foot and we are perfectly willing to pay any tax the Government wants to impose on radio stations for defense purposes provided it not only applies to radio and billboard but to newspaper advertising as well. To omit newspaper and magazine advertising seems a little

out of reason, and we do not see how they could object to being taxed same as other advertising media. Please understand that we here at WDSU are not complaining about paying our just share of defense taxes but we don't think it fair to let the alleged free press get by with only a laugh. Kindest regards and best wishes.

P. K. EWING,
General Manager, WDSU.

SHREVEPORT, LA., *July 28, 1941.*

Hon. OVERTON BROOKS, M. C.,
House Office Building,
Washington, D. C.:

The $3,000,000,000 defense tax bill approved by Ways and Means Committee and scheduled for House floor tomorrow carries special tax on outdoor and radio advertising, I understand. Am apprehensive, of course, that this special taxation would pave way for similar levy on all advertising, including newspaper, which would doubtless prove detrimental to business and commerce depending upon advertising mediums. If you can consistently do so, will appreciate your opposing this tax.

Regards,

DOLPH FRANTZ.

SHREVEPORT, LA., *July 28, 1941.*

Hon. OVERTON BROOKS,
House Office Building,
Washington, D. C.:

I sincerely hope that you will actively oppose the uncalled-for and unfair last-minute attempt to add an additional tax on radio and billboards. Truly the power to tax is the power to destroy.

Regards,

JOHN D. EWING.

The CHAIRMAN. The time of the gentleman from Louisiana has expired.

Mr. COOPER. Mr. Chairman, I yield 20 minutes to the gentleman from Texas [Mr. SUMNERS].

Mr. SUMNERS of Texas. Mr. Chairman, in the time at my disposal I shall address myself to the serious consideration of the members of the committee responsible for this bill. Each Member of the House, I am sure, fully appreciates the task which this committee has had to assume in connection with this bill. We all feel that they have done their best to discharge properly their responsibility. The only controversial item, as we all understand, which as an item will receive serious consideration, is that requiring consolidated returns by husband and wife. With reference to that item, may I call attention of the committee and the country to the fact that the cleavage between what is known as the community-property States and the common-law States is more a matter of theory than it is of fact now. Since women began to emerge from the status of nonentity after marriage, so far as their independent legal status is concerned, we have been advancing toward the establishment of equality of women before the law, with regard to property, with regard to their children, their voice in government, and everything.

In this country the progress in the common-law States has brought the status of women up to about the same place, practically, that it has in the community-property States. That is the general situation, the general picture which we have when we come to consider this section 111 provision in this bill. This proposed amendment to the Internal Revenue Code making it mandatory to consolidate these returns is a departure from existing law which levies a tax upon all income from every source of the individuals taxed. It is an arbitrary, mandatory consolidation of the income of two persons who have an independent status insofar as ownership of property and revenue therefrom, gifts, wages, and all other income are concerned. It is proposed in this bill to ignore the fact, an actual, legal, substantial fact of separate entities, which Congress may not constitutionally do. The committee asks us to ignore the fact that women in America, married women, stand before the law as men stand. I know it is called a joint return but in fact it is a mandatory merging in a definite degree of the wife's entity with that of the husband, regardless of the fact that under the laws of the States which fix the marital status the contrary is true. The Supreme Court of the United States held in Hoeper against Tax Commission that the Wisconsin State income-tax law violated the fourteenth amendment by an attempt to force a consolidated return similar in its effect to the mandatory joint return here under consideration.

In this case found at 284 United States 206, the Supreme Court of the United States held a Wisconsin income-tax statute imposing on a husband a tax computed on the combined total of his and his wife's income violated the due process clause of the fourteenth amendment. Keep in mind the fact that the Supreme Court has expressly held in *Heiner* v. *Donnan* (285 U. S. 312) that "the restraint imposed upon legislation by the due process clause of the fourteenth and fifth amendments is the same." The decision in the Hoeper case is therefore directly applicable to this proposed mandatory joint return.

In the Hoeper case the Supreme Court said:

> Since, then, in law and in fact, the wife's income is in the fullest degree her separate property and in no sense that of her husband, the question presented is whether the State has power by an income-tax law to measure his tax, not by his own income but, in part, by that of another. To the problem thus stated, what was said in *Knowlton* v. *Moore* (178 U. S. 41, 77) is apposite:
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> "It may be doubted by some, aside from express constitutional restrictions, whether the taxation by Congress of the property of one person, accompanied with an arbitrary provision that the rate of tax shall be fixed with reference to the sum of the property of another, thus bringing about the profound inequality which we have noticed, would not transcend the limitations arising from those fundamental conceptions of free government which underlie all constitutional systems."
>
> We have no doubt that, because of the fundamental conceptions which underlie our system, any attempt by a State to measure the tax on one person's property or income by reference to the property or income of another is contrary to due process of law as guaranteed by the fourteenth amendment. That which is not in fact the taxpayer's income cannot be made such by calling it income.

It will be noted that the Court says that:

> We have no doubt that, because of the fundamental conceptions which underlie our system, any attempt by a State to measure the tax on one person's property or income by reference to the property or income of another is contrary to due process of law as guaranteed by the fourteenth amendment.

That is exactly what is proposed to be done by this mandatory joint return. Regardless of how the rendition may be made or the tax assessed, the tax upon the income of the husband and wife is "measured" * * * "by reference to the" * * * "income of another."

It will be noted that this holding was with reference to the income tax of the State, which governmental agency, it is well recognized, has a greater latitude and discretion than the Federal Government, because it is the State which fixes the marital relationship.

Under the Wisconsin law, under which this tax was levied, it was provided that the tax might be levied against the husband or it might be enforced against any person whose income was included within the tax computation. Married persons living together might make separate returns or join in a single joint return. In either case the tax was to be computed on the combined average taxable income, which is the exact arrangement under the provisions of this section 111.

It is true that Mr. Justice Holmes dissented from the opinion of the Court, and in his dissent he says (p. 219):

> This case cannot be disposed of as an attempt to take one person's property to pay another person's debts. The statutes are the outcome of a thousand years of history. They must be viewed against the background of the earlier rules that husband and wife are one, and that one the husband; and that as the husband took the wife's chattels he was liable for her debts.

The whole trend of modern governmental policy has been away from that notion; away from the legal pattern "that husband and wife are one, and that one the husband." The committee proposal moves back in that direction.

Mr. Justice Holmes continues:

> They form a system with echoes of different moments, none of which is entitled to prevail over the other.

And further, Justice Holmes says:

> So far as the Constitution of the United States is concerned, the legislature [State] has power to determine what the consequences of marriage shall be, and as it may provide that the husband shall or shall not have certain rights in his wife's property, and shall or shall not be liable for his wife's debts, it may enact that he shall be liable for taxes on an income that in every probability will make his life easier and help to pay his bills. * * * it would require ingenious argument to show that there might not be a return to the law as it was in 1800. It is all a matter of statute. But for statute, the income taxed would belong to the husband.

It will be noted from the foregoing that Justice Holmes' dissent was based upon the power of the State to fix the marital status, a power which could return woman to her status "as it was in 1800."

In view of the reasons for Justice Holmes' dissent and in view of the fact that this amendment proposes to ignore a status created and controllable by the State, it seems clear that Justice Holmes' dissent supports the position of those who contend against the constitutionality of this mandatory joint return.

The Wells, Clifford, Horst, Eubank, Hormel, and Schaffner decisions are not in point. The Court did not tax these men on income they did not receive. It taxed them on certain income because it found that they did receive it, or its equivalent.

In *Burnet* v. *Wells* (289 U. S. 670) the taxpayer diverted some of his income through a trust directing its payment on life insurance policies on his own life. The Court found this evasion device left the taxpayer with substantial ownership of the income so used.

In *Helvering* v. *Clifford* (309 U. S. 331), the taxpayer transferred some of his interest-earning securities to short-term trusts, of which he retained full management and control and the income of which could be paid to his wife only at his express direction. The Court says on page 334 of its opinion that the basic issue was whether the grantor after the trust was established may still be treated as the owner of the property and its income. The court found that he continued to be the owner. He retained rights which were the fair equivalent of what he previously had.

In *Helvering* v. *Horst* (311 U. S. 112), the taxpayer had certain coupons which were in the process of maturing; and, seeing the income coming his way, he gave the coupons to his son just before the money arrived, but kept the income-producing bonds. The Court held that the exercise of the power of disposition of income in satisfaction of his wants constituted a realization of the income by the taxpayer. It was his income; he owed the tax.

In *Helvering* v. *Eubank* (311 U. S. 122), the taxpayer gave away income due him as renewal commissions, which he would otherwise have received. The Court held he had realized the income and owed the tax. There is nothing new in this doctrine. Long prior to the Hoeper decision it was established that a taxpayer could not avoid tax by giving away his earnings prior to their actual receipt.

Except for certain procedural points *Hormel* v. *Helvering* (85 L. Ed. 651), decided March 17, 1941, adds nothing to the Clifford case. Here again the court simply penetrated the disguise of a trust, found that the income was Hormel's and taxed him on it.

In *Harrison* v. *Schaffner* (85 L. Ed. 694), decided March 31, 1941, the taxpayer assigned to her children certain trust income she would otherwise have received. The court found that she had, and had exercised, actual command over the income which is taxed and received the actual benefit for which the tax is paid. In this case it stated the point of this whole series of cases, as follows:

> It was for that reason that in each of those cases it was held that one vested with the right to receive income did not escape the tax by any kind of anticipatory arrangement, however skillfully devised, by which he procures payment of it to another, since, by the exercise of his power to command the income, he enjoys the benefit of the income on which the tax is laid.

My distinguished friend, the gentleman from Oklahoma [Mr. DISNEY], seems to have attempted to draw a distinction between the relationship of the provisions of the due process clause of the fourteenth amendment to the Constitution which were invoked in the Hoeper case, and the due process clause of the fifth amendment—the provision under which the constitutionality of this mandatory joint return proposal must be determined. As a matter of fact, there is not any difference except that the fourteenth amendment limits the governmental discretion of the State, and the fifth amendment limits in the same way the powers of the Federal Government. The Hoeper case, therefore, is directly in point here, with the force of that decision strengthened by the fact that as to the Federal Government which is undertaking to do this thing there is an entire absence of the power to fix the marital status which the State of Wisconsin possesses. If the State of Wisconsin, which possesses that power, could not do a similar thing, how can it be expected or held that the Federal Government, which possesses no such power, can do it, and that, too, in defiance of the States which do possess that power and have exercised it to establish and make certain the independent, distinct, and fixed status of the wife.

In this bill you are attempting to levy a higher tax upon a woman who is married, than you levy upon a woman with the same income who is not married, and a higher tax upon a man who is married than the tax you impose on one who is not married. There is no question about these facts. Take the case of a man and a woman who are unmarried, and each of them, we will assume, has an income of $2,500 a year. The total of the tax that they pay would be less than the total of the tax they would pay under this bill if they were married, and that arises out of the attempt of the Congress of the United States by the mandate of this Congress to change the status of that man and the status of that woman by reason of the fact that they may be married. The Supreme Court of the United States says you cannot do it. The only theory upon which you can do it is that Congress has the power to break down the result of progressive statutory enactments during the past 100 years of the States, liberating women and giving them a social and legal entity which marriage does not destroy and Congress cannot ignore. Of course the Congress has the implied power to make classifications incidental to a proper exercise of its powers, but it cannot under the guise of necessity in connection with the exercise of its powers do what is proposed in the amendment.

Much has been said in justification and support of this mandatory joint-return proposal as to the relatively small percentage of people affected. I do not know what percent of people would be affected, and, except as a matter of political consideration, I do not see how that fact can have any importance to people facing a matter of constitutional duty and power on their part and constitutional right on the part of a citizen, even a bad citizen, whose offense against society is that he got married. It is insistently admitted that the motive behind the scheme of this mandatory joint return is to force these people who have got married to pay $328,000,000 more than they would have been compelled to pay if they were not married. That statement of amount probably should be modified some, but in the big aspect of this matter the statement is correct.

In *Helvering* v. *City Bank Co.* (296 U. S. 92), the Supreme Court said:

> There are, however, limits to the power of Congress to create a fictitious status under the guise of supposed necessity. Thus it has been held that an act creating a conclusive presumption that a gift made within 2 years prior to death was made by the donor in contemplation of death, and requiring the value of the gift to be included in computing the estate of the decedent subject to transfer tax, is so grossly unreasonable as to violate the due-process clause of the fifth amendment. In the same category falls a statute seeking to tax the separate income of a wife as income of her husband (citing *Hoeper* v. *Tax Commission*).

I do not believe the Supreme Court, in passing upon a human right under the Constitution, would be guided in its determination by the number of people to be affected. It is a new doctrine to me that if there be a small number affected, then it would be all right to take away their substantial constitutional rights; either that, or it would be politically safe to do it. That seems to be the argument; simply to say to ourselves in the first instance, and expect the Court in the second instance to say, "There is a small number involved. Sure, go ahead and kick them in the flanks. There are only 3 or 4 percent of them."

If the Supreme Court cannot do it, and should not do it, I say Congress cannot constitutionally do it, and should not do it, because, in the first instance, the Congress has to sit in judgment with reference to its own constitutional powers and responsibilities and limitations. The Supreme Court takes no different obligation from the obligation which you and I took when we stood here and took the oath to support the Constitution of the United States.

Now, I am grateful that many of you have listened to what I have had to say. I have not tried to make a constitutional argument or a speech of any sort. I appreciate the hard, earnest work of the great Ways and Means Committee, of Chairman Doughton, and his efficient coworkers. I have ventured some observations which I felt I should make. I do not want to take any more of your time. If anyone wishes to ask any questions I will be glad to yield.

Mr. MICHENER. Will the gentleman yield?

Mr. SUMNERS of Texas. Yes; I yield to my colleague.

Mr. MICHENER. May I hope that my distinguished chairman in that speech will discuss the cases, especially the Texas case to which the gentleman from Oklahoma [Mr. DISNEY] referred in his argument this afternoon? I have never studied this matter, but I listened very attentively to that argument.

Mr. SUMNERS of Texas. I am not certain which cases the gentleman referred to, because he did not cite the cases in his statement. He promised to put them in the RECORD. Unfortunately, I will not find out what those cases are until tomorrow.

Mr. MICHENER. There was one case which you asked him to cite, and he did give you the citation, as I recall.

Mr. SUMNERS of Texas. I believe the case he referred to was a case in which the Supreme Court held that Congress could tax a voluntary association as though it were a corporation or a partnership. But as I recall that case, and I have not examined it for a long time, it does not seem to be pertinent, in view of the fact that we have the clearest sort of pronouncement by the Supreme Court that this thing, here proposed, cannot be done. Aside from the constitutional question involved, there is the question of public policy in thus compelling people who are married to pay more tax upon the same income than if they were not married. As to its importance, there can be difference of opinion, but as to the fact, I do not suppose there can be any. The other question is: Do we believe as a matter of policy that the progress in the United States toward establishing the independent relationship of women toward property and toward government should be encouraged or not? That is hardly a fair statement. Perhaps it would be fair to say, "Do we believe under all the circumstances that we should take this backward step toward the statute of 1800, as Mr. Justice Holmes said the States might do?" But he did not indicate he thought the Federal Government could do it. I realize this amendment applies to men and women equally, but in view of woman's historical background and the immaturity of her present status, she has the larger interest in the questions associated with this mandatory joint return.

Mr. MICHENER. Of course, that is a question of policy.

Mr. SUMNERS of Texas. Yes.

Mr. MICHENER. The thing I was vitally interested in was the thing which I think the gentleman was going to discuss, and that is the constitutionality.

Mr. SUMNERS of Texas. Of course.

Mr. MICHENER. We undoubtedly can do the thing unless it is unconstitutional.

Mr. SUMNERS of Texas. That is right, but I am afraid my friend did not understand me. I said there are several things involved. First, that question of policy is involved. Then, of course, is the question of power. I agree with my friend that the first question that should be determined is the question of constitutional power to do it.

Mr. LEAVY. Mr. Chairman, will the gentleman yield?

Mr. SUMNERS of Texas. I yield.

Mr. LEAVY. When the gentleman expresses an opinion upon constitutional law in this body I think his opinion carries perhaps greater weight than that of any other member of this body, because he is a man learned in the law. The answer to the question I am about to propound is self-evident. The United States Congress could not in any manner, directly or indirectly, enact legislation that fixed the status of private property within the confines of any State in the Union?

Mr. SUMNERS of Texas. No; it could not do that, speaking generally.

Mr. LEAVY. When the Congress enacts a tax bill which disturbs the status of property then fixed by a sovereign State, which has reserve powers under our dual form of government, then are we not indirectly striking at the sovereignty of the respective States?

Mr. SUMNERS of Texas. I tried to make it perfectly clear that certainly under the decisions of the Supreme Court up to this time, as clear cut as they can be, and under the philosophy of our system of government, I do not have any question myself that we are attempting to do that which must fail when it reaches the Supreme Court, because there is not the slightest question but that this status of independent relationship toward property and toward income is definitely fixed under the laws of the States. There is no question about it. The argument they make, with all respect to my friends, that you get so much more money by compelling these two persons who have an independent relationship to their property and an independent obligation to make response in taxes to their Government—the statement that by making them combine you throw them into a higher bracket and get more money is no sounder than to say that if you make a provision that will make all the people in a community engaged in a particular business or living in a single neighborhood put into one rendition their properties, you will throw their income into a higher bracket and get more money. That statement is a bit too strong, but it illustrates.

Mr. COOPER. Mr. Chairman, will the gentleman yield?

Mr. SUMNERS of Texas. I yield.

Mr. COOPER. I, of course, value and highly respect the distinguished gentleman from Texas.

Mr. SUMNERS of Texas. I do not pose as any expert on the Constitution.

Mr. COOPER. I should like to submit two cases to the gentleman for the benefit of his answers. First, a married man is entitled to $2,000 deduction, a single man to $800. That is the law now. How does the gentleman differentiate between this and the joint- and separate-return proposal? How can one classification be justified without justifying the other?

Mr. SUMNERS of Texas. I say to my distinguished friend from Tennessee that I have never examined that matter; that character of distinguishing between married persons and unmarried persons, persons with dependents and persons without dependents. I suppose it is a question of the reasonableness of the classification.

Mr. COOPER. Will the gentleman yield for a further question?

Mr. SUMNERS of Texas. Yes.

Mr. COOPER. Let me also ask for the benefit of the gentleman's assistance with respect to the question that arose in the Brushaber case in connection with the original Income Tax Act of 1913. As I recall that act provided that married people living together should have an exemption of $4,000 but married people not living together were entitled to $3,000 each. This meant therefore that married people not living together had the advantage over married who were living together, yet the Supreme Court sustained that act with that direct question raised, as I now recall.

Mr. SUMNERS of Texas. In the first place I disclaim any right to pose as an expert. Those questions have never come under my examination. I really have not much respect for experts anyhow. Most experts know more about nothing and less about something than any other bunch I ever ran across. I have not examined into those questions as has the gentleman's committee. I have attempted to make an examination of questions that arise directly under the provisions of this amendment.

In the case of Hoeper against Tax Commission, referred to—and this is a fairly recent decision of the Supreme Court—the question there directly presented was whether the State has power by an income tax law to measure the husband's tax not by his own income solely, but in part by the income of his wife. The Court held:

> We have no doubt that because of the fundamental conceptions which underlie our system, any attempt by a State to measure the tax of one person's property or income by reference to the property or income of another is contrary to the due process of law as guaranteed by the fourteenth amendment. That which is not in fact the taxpayer's income cannot be made such by calling it income.

That is a direct pronouncement by the Supreme Court.

That question arose in an attempt by a State to force a consolidated return throwing the payment in a higher bracket and making each spouse pay more than he or she would if he or she had made a separate return.

[Here the gavel fell.]

Mr. COOPER. Mr. Chairman, I yield 2 additional minutes to the gentleman from Texas.

Mr. CROWTHER. Mr. Chairman, will the gentleman yield?

Mr. SUMNERS of Texas. I will yield, but let me complete this statement first.

While this question arose under the fourteenth amendment, a limitation upon State powers, the limitation upon the Federal Government imposed by the due-process clause of the fifth amendment as applicable here is identical with the limitation imposed upon the State by the fourteenth amendment.

Mr. CROWTHER. It is with great trepidation I even ask the distinguished jurist from Texas a question, but does he not believe that in view of the Supreme Court decisions on these matters, such as are related to this particular subject—and there are very few that are on all fours—that perhaps under the fifth amendment it might be considered that this action of Congress is a reasonable classification? I am speaking now in light of what has been done as regards dependents and differentiating between single and married people as to exemptions.

Mr. SUMNERS of Texas. I suggest that the gentleman examine the opinion to which I have already referred, if he has not already done so, and he will find that the Court held directly with the issue squarely before it, that such a classification is unreasonable and arbitrary, and therefore unconstitutional.

Mr. CROWTHER. I hope to do that. I am going to yield myself enough time to read, following the gentleman's statement, a short paragraph from the report of our committee on this same subject. I think it is apropos at this time, and it will be very enlightening.

Mr. SUMNERS of Texas. I am very much obliged to you all for listening to me.

[Here the gavel fell.]

Mr. CROWTHER. Mr. Chairman, I yield myself 6 minutes.

Mr. Chairman, I yield myself this time following the gentleman from Texas to read the following paragraph from the report on this bill:

> The only authority against the constitutionality of the proposed legislation is *Hoeper* v. *Tax Commission* (284 U. S. 206). There the State of Wisconsin had provided for treatment of spouses who enjoyed independent incomes similar to that provided for in the proposed amendments. There was, however, one essential difference. Under the Wisconsin law each person whose income was included within the tax computation was liable for the entire tax. The Supreme Court held that this legislation was unconstitutional on the ground that each person was liable for the total tax and therefore A was required to pay a tax on B's income. But this conclusion was reached over the vigorous dissent of Mr. Justice Holmes, Mr. Justice Brandeis, and Mr. Justice Stone, and the views of the dissenters in the Hoeper case have recently been measurably strengthened by the Supreme Court in a series of significant decisions. *Burnet* v. *Wells* (289 U. S. 670), *Helvering* v. *Clifford* (309 U. S. 331), see also *Helvering* v. *Horst* (311 U. S. 112), *Helvering* v. *Eubank* (311 U. S. 122), *Hormel* v. *Helvering* (85 L. Ed. 651), *Harrison* v. *Schaffner* (85 L. Ed 694).

Mr. Chairman, I am not a lawyer. Folks in my district have said to me many times, "Doctor, the trouble with you down there is there are too many lawyers in Congress." I said, "You are mistaken. We need them. The language and phraseology that we use in legislation is technical. It requires the education, it requires the continuity of thought and the powers of analysis and conclusion that lawyers are trained in." So I still hold that we need you lawyers and I appreciate your extremely valuable services. It is all right to have a few men here that just read the newspapers as I do, and have some little sprinkling of horse sense, but we need the lawyers. I recommend a study of this matter, particularly to my distinguished disciples of Blackstone.

One of my colleagues said to me a few moments ago, when someone spoke of the dissenting opinions of these distinguished Justices, "I do not care anything about dissenting opinions." I said, "Why not?" He said, "Because they are not the law." True, they are not the law, but certainly study and consideration and weight should be given them, especially when reference is made to the fact that they have been given added strength by numerous decisions following this original case in the Supreme Court.

Mr. GEARHART. Will the gentleman yield?

Mr. CROWTHER. I yield to the gentleman from California.

Mr. GEARHART. Despite the fact that the gentleman from New York is a little modest, may I say that, in the estimation of his colleagues, he has become a very great lawyer in the time he has served in legislative halls. Since you are now giving consideration to constitutional questions, I would like to have your opinion in respect to a question that is engaging my attention. Though it has not been suggested by anybody during the course of this debate that such a tax should be levied, I was wondering what the gentleman's opinion would be in respect to the constitutionality of a law which would require the members, copartners of a business partnership to file joint income tax returns. Is not a business partnership and a matrimonial partnership sufficiently similar to justify equal treatment in a tax law?

Mr. CROWTHER. I do not get the gentleman's meaning. Does the gentleman mean a man who has a partnership business should include that in the income of his wife?

Mr. GEARHART. Not exactly that. What does the gentleman think of the idea of compelling the members of all business partnerships to file a joint return?

Mr. CROWTHER. Well, we have a very good and sufficient system of taxing business, corporations, and partnerships. It has been very well defined after long years of study, and it is evidently working well. Why dive into that pool of difficulty?

Mr. GEARHART. If you are after money, you will raise much more by compelling joint returns by members of business partnerships than by compelling joint returns by members of the matrimonial partnership.

Mr. CROWTHER. If we wanted to raise money, there are divers ways that may be just as unpopular as this is.

Mr. GEARHART. The only reason you favor joint returns is because you want to raise $350,000,000. An easy way to get that sum is to take it from the people who happen to be married. Is that not the reason for this unprecedented proposal?

Mr. CROWTHER. That is not a fair statement.

Mr. GEARHART. After sitting through 4 months of committee hearings that is the way it appears to me.

Mr. CROWTHER. A moment ago the gentleman said that the amount of money involved was inconsiderable, that it was only two-tenths of 1 percent. Now the gentleman destroys one argument with the other.

Mr. GEARHART. I was talking about an entirely different thing. I was talking about the savings to the people who live in community-property States. It is only two-tenths of 1 percent of the amount you are going to collect this year from the taxpayers of this country. You are wasting your time talking about that.

Mr. CROWTHER. In my estimation, it is a matter involving an honest determination as to income, and for the purposes of taxation I think the Federal Government has a perfect right to aggregate the income of the husband and wife for the purpose of determining what the tax shall be.

Mr. GEARHART. Why not business partnerships, too? They are analogous.

Mr. COOPER. Will the gentleman yield?

Mr. CROWTHER. I yield to the gentleman from Tennessee.

Mr. COOPER. With respect to the statement the gentleman made about the dissenting opinions of the Supreme Court, I am sure the gentleman will recall that the dissenting opinion in the Wisconsin case was delivered by Mr. Justice Stone, who is now the Chief Justice of the United States Supreme Court.

Mr. CROWTHER. I thank the gentleman for his contribution.

[Here the gavel fell.]

Mr. COOPER. Mr. Chairman, I yield 2 minutes to the gentleman from New Mexico [Mr. ANDERSON].

Mr. ANDERSON of New Mexico. Mr. Chairman, I desire only to say that insofar as part XI, relating to outdoor advertising, is concerned, every word that I have received from any business institution in my State indicates that we would like to suggest to the members of the Committee on Ways and Means our hope that it will present an amendment to strike that section from the bill.

Further, just a word with reference to the community-property States. May I say that while those of us who live in community-property States may enjoy a slight advantage on the 15th day of March because of the privilege of filing separate returns we live under that system 364 other days. We do not dispose of our houses or our lots or our property without the consent and persuasion of our business partners, our wives. We realize that no property can be disposed of without their consent. I think it is a fine institution, and I hope that the power to tax does not destroy that part of our community life.

[Here the gavel fell.]

Mr. COOPER. Mr. Chairman, I yield such time as he may desire to the gentleman from Arizona [Mr. MURDOCK].

Mr. MURDOCK. Mr. Chairman, after the Committee on Ways and Means has given such painstaking study and such sincere and patriotic effort for 4 long months in preparing this bill, I feel much more like praising than criticizing.

While I shall vote affirmatively for the proposed amendment to strike out the

joint-tax-return provision, and while there are at least two other changes which seem to me desirable, I do want to compliment the committee for their splendid work.

Mr. Chairman, I am not well pleased with that portion of the bill, on page 38, lines 22–25, inclusive, wherein section 731 of the Internal Revenue Code is stricken out. On turning to the Revenue Code, I find that certain benefits have been furnished the miners and operators who are producing tungsten, quicksilver, manganese, and certain other of the strategic metals. I think the producers of these war minerals should have great consideration shown them in computing excess-profit tax. While we have done something in recent sessions of Congress toward promoting home production of these strategic minerals and metals, it is my candid judgment that we have not done enough, and for that reason I dislike to see such little advantage as they had under Public Law No. 801 of the Seventy-sixth Congress taken away from them.

In computing excess-profit tax, I fear an injustice is being done certain branches of the mining industry. I know many small mining men who have not been in production during the years of the depression, but who could now and would very much like to produce the war minerals so much needed at the present time. It is for this struggling industry that I beg consideration, first in this tax measure and also in the computation of all taxes, and more particularly in their encouragement in many other ways, so that these hundreds of small operators may not be discouraged but rather materially encouraged to produce that which the emergency demands.

Although thinking of the many small operators, I am reminded that one great mining corporation operating in the State of Arizona will be hard and unjustifiably hit by this measure as it now stands. Four years ago, I traveled over to Morenci, in Greenlee County, Ariz., and saw a great enterprise in its beginning. A copper-mining company, in the midst of the depression and before the World War, had started, had sufficient faith in the future to invest $35,000,000 to turn a mountain upside down and handle millions of tons of rock before they took out a pound of copper and before they could make 1 penny of profit. I take off my hat to such business planning and financial courage, and I do hope that when this defense-taxation legislation is finally worked out such beginners, whether large or small, shall not be taxed out of existence through an unwise application of excess-profit taxes.

Mr. COOPER. Mr. Chairman, I yield 15 minutes to the gentleman from Mississippi [Mr. WHITTINGTON].

Mr. WHITTINGTON. Mr. Chairman, I am among those who believe that the provision in this bill for joint returns by husbands and wives is probably the most constructive provision in the legislation under consideration. At the same time no injustice is done to the community States that desire to retain the system of community property and community-income taxes within their own jurisdiction. However, the discrimination between American citizens is removed by the incorporation of provisions for joint returns in the bill, and all citizens of the Republic, regardless of State or community laws, are treated alike in the filing of returns.

The bill under consideration provides for approximately $3,500,000,000 in taxes. These figures are unparalleled. They are astronomical. The bill will provide for the most burdensome taxes in the history of the Republic for the year 1942, and they will exceed the previous large year of highest taxes in 1920, just after the greatest of all wars.

It has been suggested that taxation may be relieved by the reduction of normal governmental expenses. Appropriations are not the functions of the Committee on Ways and Means. They are handled by the Committee on Appropriations. It has been proposed that there should be a joint committee composed of representatives of the Committee on Ways and Means and the Committee on Appropriations to look for a solution of the problem of appropriations, for, in truth and in fact, we may as well admit that instead of reducing normal expenditures during the present session, the Congress of the United States has increased such expenditures. I voted against such increases.

Again, it has been suggested that the initiative for reduction is for the Executive. Personally, I think there is a responsibility on the Executive, but at the same time there is a responsibility upon the Members of the House and Senate. It is my view that there can be no solution of the problem which we must solve, to-wit, during the emergency to reduce the normal expenditures of the Government, except by cooperation between the Executive and the Congress. I am inclined to think that, inasmuch as the Executive speaks for all interests, there will never be any reductions in normal expenditures until they are recommended to the Congress by the President in his Budget message. Joint committees can help, but the Executive must lead in reductions.

There are those who vote for continued large appropriations, and they assert that income taxes in the United States are very much lower than income taxes in the United Kingdom and in Canada. The methods of local taxation are different in the United States than in those countries. I speak to you long enough, and for only a few moments, to call your attention to the Preliminary Report of the Joint Committee on Internal Revenue Taxation, submitted by the chairman of that committee on May 21, 1941, and to the fact that for the year 1940 it would be interesting to make a comparison of the revenues collected and the expenditures made by the United Kingdom, Canada, and the United States.

May I say that there are different methods of local taxation in other countries as compared to our own. When we are asked to make large appropriations or to increase our income taxes we should keep in mind the significant fact that in Great Britain in 1940 the local revenues were approximately one-sixth of the total national revenues, whereas for the same year in the United States the State and local revenues exceeded by more than 60 percent the national revenues.

Probably the best way to compare taxation as between the United States and those countries is to compare the per capita tax. The per capita tax in 1940 in Great Britain was $136.45, in Canada $98.19, and in the United States $102.11. Under the bill of 1940 and under the pending bill, the national revenue in the United States will be increased so that in 1942 it will amount to approximately $8,000,000,000 more than in 1940, and that $8,000,000,000, divided among 130,000,000 people means that the per capita tax in the United States will be substantially increased to $162 as against $136 in the United Kingdom for the year 1940. And the end is not yet in sight.

Taxes for defense are imperative, but a strong economic government is essential in waging war. In making comparisons I think it would be well enough for us to keep in mind that for the fiscal year 1938 and prior thereto in Great Britain and in Canada, the expenditures were substantially the amount of the revenues. The budgets of Great Britain and Canada were balanced, whereas since 1930 in the United States, we have had accumulating deficits, and there have been deficits for practically every year of from one to five billion dollars a year. I maintain that if we are to defend the United States and the Western Hemisphere, we have got to put our economic house in order.

Another thing in connection with comparisons it is well for us to keep in mind is that while the per capita debt of Great Britain was substantially in excess of the per capita debt of the United States in 1940, with 50 billions of dollars for national defense already authorized and appropriated, and with an $11,000,000,000 increase in the last 60 days, the national debt of the United States per capita in the next 12 months will be comparable to that of Great Britain, and Great Britain has been fighting with her back to the wall since July 1940 and engaged in war since September 1939.

Mr. Chairman, the committee in their report are frank enough to say that this is a bill to raise revenue. There are those who advocate increased taxes and savings to prevent inflation. I should like to say to the distinguished chairman and the members of the Ways and Means Committee that in my humble judgment if there is a defect in the pending bill it is in not providing against inflation. Inflation comes by the doubling or the multiplying by three and more times of wages and salaries. The man who was getting $5 a day and is now getting $15 a day and spending it provides the increased purchasing power. I call attention to the fact, before I leave the subject of comparison of taxes in other jurisdictions, and I speak from the report, that the income taxes included in the present bill are substantially the income taxes that obtained in Great Britain in 1938, the year before the war, and somewhat less than the income taxes in

Great Britain in 1939, the first year of the war, and yet the United States is not at the present in a declared war. The defect in the pending bill, as I see it, is that there has not been a broadening of the base, so as to make all of the taxpayers of the United States tax conscious.

I know the reasons given by the committee for not broadening the base. I suggest that there might be a flat tax of $5 for every person who is earning $500 a year, and $10 for every person earning $1,000 a year, and $15 for all earning $1,500 a year. And I say this, that whatever be said about the provisions of the pending bill, and whatever has been said about comparing the rates with the rates recommended by the Treasury for the income-tax payer below the $12,000 income, the rates in the pending bill are much less than those recommended by the Treasury, in the hope that there would be no inflation, and I say, to emphasize, that, if there is one class of taxpayers who are discriminated against in this bill, it is the taxpayers with incomes of from $10,000 to $75,000 a year. It is no answer to say we are exempting those with lower incomes, because under the exemption statutes of the States, whether community or not, those with lower incomes have their homesteads exempted from taxation in Louisiana, Mississippi, and other States, and there are other exemptions all share in the excise taxes in this bill. But that is not the whole story. I have before me the report of the Ways and Means Committee on the revenue bill of 1940, and in 1940, as shown by pages 10 to 12 of the report and as shown by the bill of 1940, the very taxpayers who have been more largely increased than any other taxpayers in the pending bill are those in the brackets between $10,000 a year and $75,000 a year. They were increased from 10 to 13 percent a year ago, thereby increasing the tax by one-third, and this class of taxpayers, those who furnish the capital for the small industries of the country, those who are able to build residences on which taxes are paid to support the schools and build roads and streets, are the taxpayers whose burdens have been materially increased by substantially 33⅓ percent in 1940, and again in the present bill by substantially 50 percent. The taxes on incomes in these brackets have been twice in 2 successive years increased at much greater rates than in other brackets.

For my part, I want to pay all the taxes that are necessary to provide for our national defense. I know the difficulties confronting the committee. It is difficult to prepare a bill that is fair and just to all, but I submit that in fairness to the taxpayer with an income of $10,000, to $75,000, the previous tax bill, the seven previous tax bills passed during this administration and every tax bill passed since 1913, followed the graduation that obtained prior to 1940. I want to remind you, that there is a limit, where rates become unproductive of revenue, as you yourselves say with respect to an income of a million dollars, on which there has been properly no increase. The million-dollar income man will have $200,000 left, but the man with a $50,000 income will only have $28,000 left. I want to say in this connection that whatever bills we may have in the future it should be kept in mind that the brackets to which I have referred are the brackets that are bearing the brunt.

Now, will we prevent inflation by the terms of this bill? I refer to page 17 of the report. A taxpayer with an income of $50,000 under the bill recommended by the Treasury would have paid $19,540, whereas under the pending bill he pays $20,002. Under the bill recommended by the Treasury, a taxpayer with an income of $2,500 would have paid $71.50. Under the pending bill he pays but $28.50.

The CHAIRMAN. The time of the gentleman from Mississippi has expired.

Mr. DOUGHTON. Mr. Chairman, I yield the gentleman 5 additional minutes.

Mr. WHITTINGTON. Mr. Chairman, as I stated, I realize the difficulties confronting the committee. It is late. I know it is pleasing to say that in the bill we have not increased the burdens on the smaller taxpayers. That is fine. I stand for that. The Committee has adopted rates as proposed by the committee and rejected those proposed by the Treasury, which would in a way have broadened the base. At the same time we have not solved the matter of inflation which is indirectly involved in taxation. Until we broaden the base, until we provide for those who have benefited in the defense program by materially increased wages and salaries, we have not provided against inflation. A person with a salary of $10,000 is increased three times. The average wage earner is not increased at all. I am in favor of fair treatment to both, and to all.

Mr. Chairman, there will be another tax bill in less than a year. When the youth of my district and State and the Nation are being called to the colors, as a citizen I have no desire to increase my income. I would not be content to make more money when your sons and mine are called into service. It is time for us to economize, and not to try to pass the problem from the Congress to the Executive or for the Executive to pass the problem to the Congress, but it is time for all to unite. There must be increased taxes and there must be reductions in the normal expenditures of the Government if the United States is to be defended.

I extend by summarizing.

PER CAPITA TAX BURDEN, 1940

It is a fallacy to maintain that the tax burden is less in the United States than in the United Kingdom and Canada. Those who make this statement overlook the fact that ordinarily the local revenues in the United Kingdom are much less than the State and local revenues in the United States. The same applies to Canada.

In 1940 the local revenues in the United Kingdom were about one-sixth of the national revenue in the United Kingdom; they were about one-half in Canada, while in the United States the State and local revenues exceeded the national revenue by more than 60 percent.

As I have pointed out the income tax in 1938 in the United Kingdom on a $50,000 income was $21,137.81. The amount had been increased in 1939 to $27,388.96. Great Britain declared war on Germany in September 1939.

Under the pending bill, as shown by page 17 of the report, the tax on $50,000 is $20,002. The United States is not engaged in a declared war but the tax burden in the United States, with the passage of the pending bill, will be comparable to the tax burden in the United Kingdom and in Canada. The national debt will not only be comparable but under present conditions will probably exceed the per capita national debt of the United Kingdom and of Canada. We cannot continue therefore to make appropriations that are not imperatively needed on the theory that the tax burden at present is less in the United States than in the United Kingdom and Canada.

BUDGET

In 1938 and previous years the budget of the United Kingdom was balanced. It was in substantial balance in 1939. For the first time in 1940, after the second World War began in September 1939, the British expenditures materially exceeded the revenue receipts. The same is true with respect to Canada.

ESSENTIAL SECURITY IS ESSENTIAL TO NATIONAL DEFENSE

Taxes must not only be levied, but the normal expenditures of the Government must be reduced to promote national defense.

TREASURY AND COMMITTEE RATES

As shown by page 17 of the report the Treasury recommended a tax of $19,540.40 on an income of $50,000. The bill is larger by something like $500, and the tax is $20,002.40. The Treasury recommended on incomes from $2,500 to $10,000 taxes substantially twice as large as those in the pending bill.

The taxes in the pending bill are much less on incomes below $10,000 than recommended by the Treasury. The taxes on incomes roughly between $10,000 and $75,000 are higher than any other brackets. As shown by page 7 of the report, the great percentage of increases on income taxes is on incomes from $10,000 to $75,000.

There is no material increase on incomes of $100,000 to $750,000, and there is no increase at all on incomes of a million dollars and more. The taxes on income taxpayers from $10,000 to $75,000 in the pending bill are higher than the taxes proposed either by the Treasury or by the joint committee for these brackets.

The Revenue Act of 1940, as shown by page 10 of the report, increased very materially the taxes on incomes from $10,000 and especially from $20,000 to $50,000. These are the brackets in which the income taxes in the present bill are largely increased. On a $50,000 income there was an increase of approximately $5,000. The income tax on $50,000 was almost doubled in 1940, as shown by page 12 of the report on the revenue bill of 1940.

The tax on incomes of $50,000 is increased in the present bill by about $6,000 more than it was under the bill of 1940. The taxes are much higher than they were in the highest year following the first World War, which was for 1920.

If it be said that an income of a million dollars is already taxed 79 or 80 percent, the answer is the taxpayer will have left around $200,000, whereas the taxpayer with an income of $50,000 would only have left about $28,000. In other words, in the pending bill incomes from $12,000 to $100,000 are carrying more taxes than should be put upon this group. There were materially increased taxes last year when there was substantially no increases in other brackets.

JOINT RETURNS

As disclosed by page 17 of the report of the committee, if joint returns are eliminated it would mean that on incomes of $2,500 to approximately $15,000 the rates of the Treasury would have to be levied, which would be approximately 100 percent in excess of the rates under the pending bill. The joint tax returns affect 6 percent of the taxpayers. The increased rates would affect 94 percent of the taxpayers.

The report of the committee answers in detail the objections as to the constitutionality or legality of the proposed joint return of husband and wife.

INFLATION

Increased wages without increased taxes and increased savings mean inflation. Those whose salaries and wages have been increased in the defense program should have their income taxes increased; otherwise, there is inflation. Moreover, there will be no reduction in the normal expenditures of the Government unless all taxpayers share in the tax burden. The tax base should be broadened. Wages and salaries which have been especially increased in the defense program should be taxed. The taxes in all brackets should be increased. They should not be confined to any one class of brackets. As I have pointed out, prior to the tax bill of 1940, there was a graduation in income taxes in accordance with the ability to pay that has obtained since the passage of the first income-tax law in 1913. The graduation was changed by increasing the rates in the brackets from $10,000 to $75,000 out of line with the increases in other brackets in 1940. The graduation in said brackets has been changed again in the pending bill. It cannot be that throughout all of the years a mistake has been made in the graduation of income taxes. If excessive taxes mean no taxes in the higher groups, excessive taxes will mean no taxes in the brackets where there has been a doubling of the taxes in the past 12 months.

DEFENSE MEANS TAXES

Adequate defense means increased taxes. Adequate defense means a balanced Budget for ordinary expenditures. Adequate defense means raising a substantial part of defense expenditures by taxation. The generation that is protected should largely foot the bill

I know it is difficult to levy a tax that is satisfactory to all, but it is my view that all citizens should participate in the burden of taxation. Of course, there should be reasonable exemptions, but excessive and wasteful expenditures will not be eliminated unless the public is tax conscious. A broadening of the base will result in a wholesome tax consciousness that will contribute toward sound economic security and adequate national defense.

[Here the gavel fell.]

Mr. COOPER. Mr. Chairman, I ask unanimous consent that all Members who have spoken today may have permission to revise and extend their own remarks.

The CHAIRMAN. Without objection, it is so ordered.

There was no objection.

Mr. COOPER. Mr. Chairman, I yield 10 minutes to the gentleman from Alabama [Mr. PATRICK], which closes the requests for time on this side.

Mr. PATRICK. Mr. Chairman, a forward step was taken by the Ways and Means Committee in reporting out this joint tax proposal and this move is one of the most laudable steps that has ever been taken by a taxing body in the United States. Every argument I have heard presented substantiates the statement by the gentleman from New York [Mr. CROWTHER] that this effort against it is one of legal avoidance. One of our fine things in this country is that we have so many constitutional lawyers, but you cannot find any group of persons who disagree among themselves any more religiously than do the constitutional lawyers. I do want to say, too, for my good friend the gentleman from Texas [Mr. SUMNERS] with all of his information and with all of his education and with all of my lack and need, I believe I know more about the sacred precincts of the marital relation than he does. So, when he comes espousing that as his gospel, I feel free to answer him by stating that those who come forward with this proposal have put their finger at least on those who are able to pay, which is where it should go. It is an effort to levy a just tax, and if they talk of different returns—they say it demands a different tax on the married from the unmarried—that is because of the different status and the different way that they have to be approached to do the thing that needs to be done at this time. If people do not think any more deeply and solemnly of the marital relationship and if they have not any more regard for each other, as people ought to have when they get married, than to let this tax keep them apart, then they are not made for each other and ought never to get married in the first place; and if people who would come under it should stay unmarried because of the tax, they have no business getting married and would not be proper persons to enter that sacred relationship with each other if they were married. So I do not give any great weight to this argument.

I have listened to this argument. I came here to listen and to think it through as best I could and have reached my decision almost entirely from hearing the arguments on the floor. I did not hear what went on in the sacred confines of our tax-levying committee. The House should be delighted with its work. In years to come we shall look back with great pride on the present membership of our Ways and Means Committee.

But the thing I got up here to talk about was not that at all. I want to refer to the title which has to do with radio broadcasting and radio network tax. That is section 601 of the revenue bill, and let me raise a warning finger.

On July 15 the executive committee of National Radio Broadcasters adopted this resolution:

> In view of current trade publicity being given to a proposed advertising campaign in behalf of the Navy Department to be placed through one of the large advertising agencies, the executive committee feels that the purchase of time by defense agencies might tend to restrict rather than enhance the most effective utilization of broadcasting during the present emergency.
>
> Therefore we wish at this time to reaffirm the industry's desire to continue its present practice of making its facilities available at no cost to Government agencies engaged in promoting the national-defense program.
>
> To inform the public of the industry's position, it is suggested that an announcement that all Government defense programs being carried without charge be used once each day by all cooperating stations.

The United States of America has no child who is more loyal, who is more cooperative than her radio industry. She has not one who renders such magnificent service; no, not one. The sale of defense bonds and the search for skilled mechanics in the defense industry was aided very materially by free time given through her agencies, her radio stations. The Civil Service Commission has credited the efforts of the radio chains with producing 500,000 skilled workers in the year ending July 23, 1941.

Let me refer to the three advertising media to be dealt with—radio, newspapers, and billboards. I am glad to have the Members preceding me stand up with me on it. For some reason one of these three, the newspapers, are exempt in this tax bill. I wonder why? This is unfortunate. Let us analyze this for a moment. I hope this discrimination is stricken out, or this entire provision is stricken out. I am not interested in taxing the newspapers any more than they are now taxed. But this part of the tax levy is expected to produce only about $5,000,000 revenue if sustained. This means that many men will be thrown out of employment, because the radio stations must do something tremendous to equalize themselves with this tax and still compete with the untaxed newspapers if they are not going to be put out of business. It amounts to unfair competition, because in the end that competition has got to be met, and their business will have to be rechecked. If this tax is maintained the newspapers ought also to have to meet it, as well as radios and billboards, but since the tax is not assessed against the newspapers while being assessed against the radio companies it is unfair. It will do more harm than the good to be done by the revenue the Government may obtain from the tax, and is not worth the candle.

Mr. CROWTHER. Mr. Chairman, will the gentleman yield?

Mr. PATRICK. I yield.

Mr. CROWTHER. Does not the gentleman think—he has had a wide experi-

ence in the art of radio broadcasting and advertising—that the radio broadcasting system is worth the 10 percent more than newspaper advertising, especially when the advertising is delivered in the seductive and splendid tones the gentleman from Alabama uses?

Mr. PATRICK. I must confess I am biased on that subject. In fact I believe my opinion on the value of radio advertising would, because of my bias, be less convincing than that of some unbiased man, and modesty itself precludes me from expressing an honest opinion on what I might do with this subject on the radio.

Mr. BROOKS. Will the gentleman yield?

Mr. PATRICK. I yield to the gentleman from Louisiana.

Mr. BROOKS. In addition to what the gentleman said in reference to the radio, I may say that I notice the billboard advertising mediums very often give space in considerable quantities to the national-defense program, to the American Legion, and to a great many civic and service organizations throughout the United States. They contribute very heavily to the civic interests and to the national defense.

[Here the gavel fell.]

Mr. COOPER. Mr. Chairman, I yield the gentleman 2 additional minutes.

Mr. PATRICK. Mr. Chairman, I have not investigated billboards as has my friend the gentleman from Louisiana [Mr. BROOKS], but I have gone into this other matter a little bit. The radio broadcasting companies report to me they would suffer in many instances a reduction of 50 percent or more in their net income, even after allowing for savings and excess-profits taxes. There are at least 13 radio stations affected that were in the red last year. In some instances it will be fatal, they report, and pretty nearly fatal in all cases. Here is a business kept short of breath by us, because we only license a station a year at the time. This ties them down to short contracts. It just cannot be worth the candle. It means more than the subscriber would pay in addition to present sums and stay with his station, thus a plain cut-down on annual income.

I am sure the inequality and the consequences will give the radio stations a harder job than they ought to have to undertake to overcome and absorb. There is not in the United States an organization or a band of people who has come forward with more full-hearted support of the Nation and who have given more time than the radio stations. Radio is a fine art that as a matter of public good should be encouraged and supported. If you wish to sell bonds, or if any need arises in the land, the radio stations respond not only willingly but valiantly, because they are the one great voice that can be heard in the far corners of the earth when a cry is heard in the land. They cheerfully and gloriously give of their time. It is an exceedingly patriotic group, these radio people, providing an effective medium for interassociation and all-out service communication among the people of this great country. Whenever a thing like this comes up, they should be given consideration, because they are part of the pulse and responsive chords of the Nation today. I believe that if we can remember this serious fact and if we will give radio a true and fair review, we must come to the conclusion that the radio is the best general forum and the purest agency for national strength in the country. I hope this consideration will be had before the legislation is ended.

[Here the gavel fell.]

Mr. COOPER. Mr. Chairman, I yield such time as he may desire to the gentleman from California [Mr. COSTELLO].

Mr. COSTELLO. Mr. Chairman, I believe that the mandatory joint income-tax provision contained in this proposed tax measure is not only most unwise but likewise very unsound in its application. Throughout the entire history of this Nation, every effort has been made to protect the family relation and to bestow benefits thereon rather than to inflict discriminatory penalties. In other countries, where extra revenue has been sought, a special tax has been placed upon bachelors, the while married persons are granted concessions. We in this bill propose to extend benefits to bachelorhood, the while we would place extra burdens upon married persons.

In another portion of this bill, a special tax is proposed to be levied upon advertising. However, instead of covering the entire advertising field, only a single form of advertising, namely billboard advertising, is chosen to bear the burden of taxation. By what theory of equality of taxation the committee has chosen to tax solely outdoor advertising and has totally ignored all other forms, such as radio, newspaper, magazine, and signs on buildings, is beyond my comprehension.

Yet having chosen this method of applying taxation, it is not surprising then that in an effort to tax the family relationship, only the husband and wife are singled out for unequal treatment. If husband and wife are to be taxed jointly because they live together, then why not include all members of the household domiciled under the same roof? The sole basis on which it is to be determined whether husband and wife must file a joint return rather than individual returns, is the question of living together. If husband and wife live together for just 1 day in any taxable year then they must file a joint return.

Why should only these two members of a family be so singled out, while sons and daughters having taxable income and living with their parents are not also required to join in filing a single return for the entire income of all members of the family? If the test is to be a question of living together for a time during the taxable year, why should not two brothers, living together and sharing their expenses, be likewise required to join in filing a mandatory joint return. Surely the relationship of the brothers is just as close as that of the parents and should be subject to the same requirements under the tax laws.

One need not stop there in applying the test of domicile, if that is hereafter to be the basis of our future tax legislation. What will happen here in Washington, where there are countless thousands of Government workers who, in order to reduce their high living costs, join together in the rental of apartments and the expense of furnishing them? Are they to be called upon in some future tax bill to file mandatory joint returns, because they are domiciled together, even though they may not be related at all? Are their incomes to be pooled for taxation purposes, merely because they have chosen to share the same roof and equally bear the burden of their living expenses?

Let me single out another feature of this provision of the present bill which to my mind is very inequitable. The requirement to file a joint return applies whenever any husband and wife live together at any time during the taxable year. As a result, when two persons decide to marry this December, they are going to find that the income which each has acquired individually throughout the year is suddenly going to be thrown into a common fund for tax purposes and they will be penalized in the amount of tax which they pay, just because they proposed to marry in December rather than to wait until January.

Much has been said during the debate upon this provision, to the effect that it is going to only affect the rich and well to do. The fact is that this provision will work the greatest hardship upon those of very modest means. In fact, the burden will bear heaviest upon young married couples, who in order to supplement their small incomes are both working, in the hope that they may be able to acquire a modest savings account and thus the more quickly obtain sufficient financial security to enable them to plan the future; to provide the means for purchasing a home of their own, or to cover the costs of illness at any time. It is true that the greatest revenue will not come from persons in this category, but the greatest hardship will be borne by such persons.

It is not the amount of money to be raised by this method of taxation which disturbs me. The need for tax revenue is admitted by all. But merely because this change in the tax structure will provide a large sum of money, it cannot be justified, as one of my colleagues earlier in the day would infer, when the underlying principle is itself bad, as is the case here. Any legislation which places an undue burden upon married persons cannot fail to carry with it a tendency to act in restraint of marriage. Courts have long held contracts in restraint of marriage to be void, and they have rightly done so, because such provisions are bad in themselves. Yet we are being asked to put our approval upon a tax measure which is in restraint of marriage.

Moreover, we have been told that this provision will remove an inequality between the community-property States and the other 40 States. The fact is that of the total revenue to be raised by this provision only $50,000,000 will be derived from the community-property States, while the other 40 will bear the brunt of the burden to the extent of more than $275,000,000. This is a tax being levied upon married couples throughout the

Nation and is in no way limited to a mere 8 States. This provision is inserted in this bill in an effort to eliminate what has been termed a source of tax evasion by means of gifts from the husband to the wife in an effort to reduce tax liability. If so, why not directly tax these gifts between husband and wife, without spreading the tax liability to the separate property of the wife, acquired as it may be prior to marriage or through inheritance or gift from persons other than the husband? If gifts between husband and wife are not so taxed, then the law makes permissible such gifts, and there is no injustice on the part of one married couple in so transferring portions of their property to one another as against a second couple where the spouse will not trust the mate by likewise transferring property. The real effect of this legislation will be to eliminate such transfers of property to the wives, and certainly will be a matter of much concern to the women of America. In fact, for the first time in the history of legislation in this country, we are taking a backward step regarding the separate and individual rights of women, when we make their income part and parcel of that of their husbands and levying higher taxes thereon because of marriage—taxes at a higher rate than that paid by single persons.

An illustration was used in the debate earlier today attempting to point out an inequality in the case of one family where the wife had a $6,000 income and the husband had $40,000, each filing separate returns, while in another family the wife having no income and the husband having $46,000 then he had to pay a tax higher than the first husband, although the income of the two couples happened to be the same. There is no inequity here, any more than where one single person has a $40,000 income and so pays at one rate of taxation, while a neighbor having $46,000 income pays at a higher rate because of greater income. There is only inequity, if husband and wife are one person, if the wife being but a chattel is to be denied her separate identity before the tax law, something which the people of this country do not desire and surely do not intend. How fortune may distribute the goods of this world amongst various people is in many cases a matter of chance, and so the most one can say regarding the two couples discussed above is that the second couple may be unfortunate in that the husband's income is the sole source of income, whereas in the first family the source of income is divided between them. But may not the first wife likewise complain of inequity in that her husband is only earning $40,000 while the second wife has the good fortune to have a husband who earns $46,000?

One other feature of this new proposal is the method of terminating a taxable year in the event of a divorce. The language states that the joint taxable year of a husband and wife shall be terminated upon the date of their divorce or legal separation or upon the date of the annulment of their marriage. When does the joint taxable year end in the case of a married couple who have received an interlocutory decree of divorce, but which will not become final until the end of the calendar year? Must they, merely because the laws of the different States vary, continue to pay taxes under this mandatory joint-return requirement for a full year, pending the entrance of a final decree of divorce upon the records of the court? Whereas in other States granting outright divorces the taxable year would end immediately. We may complain of seeming inequities in the laws of the various States, but if we are going to recognize the individual rights of States, then we must anticipate different conditions in the different States. The community-property States may have an advantage in small degree in this matter of taxation, but with that goes the obligation of husband and wife to share their property acquired after marriage equally. If those who complain of the tax inequality, wish to eliminate it—why not adopt the same legislation and grant to wives equality of treatment, an equal share in property acquired during marriage, and thus acquire the same so-called preference. They decline to do this because they are not willing to grant to the women of their States the full recognition which the community-property States have accorded married women throughout the long years of their existence, long prior to the enactment of income-tax legislation. Little wonder that the women of the country are greatly disturbed over what is being attempted in this tax bill and are protesting against it in ever-increasing numbers throughout the land.

Mr. CROWTHER. Mr. Chairman, I yield such time as he may desire to the gentleman from Iowa [Mr. JENSEN].

Mr. JENSEN. Mr. Chairman, the American people have always been ready and willing to pay just taxes if they have the wherewithal with which to pay, especially that portion that has been spent judiciously, but no one likes to pay out their hard-earned dollars for such nonessentials as this administration has knowingly and willfully wasted by the billions.

This Congress would do well to earnestly and honestly resolve from this minute that not one dollar of the people's money will henceforth be wasted, because the American people are in no mood to be kidded longer. Yes; they want and demand a real, honest-to-goodness national defense, and are willing to pay the bill, but, first of all, they want, and have a right to demand, that kind of national defense which will best insure the keeping of this Nation out of war and will keep war out of America.

The overwhelming majority of our people are wondering just where we go from here. They want, above all, to stay out of the foreign wars, the cost of which is measured in not only tax dollars but more distressing in the sweat and tears of all—moreover in the misery, suffering, blood, and death of our boys.

Certainly, Mr. Chairman, this 3½-billion-dollar tax bill is quite a blow to every person in this land as, of course, it hits us all, either directly or indirectly, and is only a starter, more bills of like nature and even more drastic bills we are told that will hit the lower-income groups directly are now being considered behind closed doors here in Washington. This is all very disturbing, of course, but let us consider for a moment just what will happen if America should become involved in the shooting war.

Should we become actively involved in the European war or even the Asiatic war the tax bill we are now considering under the closed rule will be remembered as a measure only to gather in the chicken feed laying around easy to find, compared to the amount of tax dollars which will be extracted from the pockets of every citizen in order to ward off, if possible, a complete United States Treasury collapse, rank inflation, and its ultimate aftermath, national socialism, misery, and strife in our free land.

Mr. Chairman and my colleagues of this Congress, the people we represent, the American people, are hoping and expecting and, in fact, demanding that this Congress in whom they still have some faith will save them from destruction. The hope and faith of our boys also lies in the Congress. Will we continue to merit that faith? We must.

Mr. COOPER. Mr. Chairman, I move that the Committee do now rise.

The motion was agreed to.

Accordingly the Committee rose; and the Speaker having resumed the chair, the gentleman from Maryland [Mr. COLE], chairman of the Committee of the Whole House on the state of the Union, reported that that Committee, having had under consideration the bill H. R. 5417, to provide revenue, and for other purposes, had come to no resolution thereon.

Mr. McCORMACK. Mr. Speaker, I ask unanimous consent that on Monday when H. R. 5417, to provide revenue and for other purposes, is under further consideration in the Committee of the Whole, and having particular reference to the time of debate on section 111, that the debate on any motion made to strike section 111 out of the bill be limited to 2 hours, in addition to the first 5 minutes for which the proposer of any such amendment will be recognized; and that the 2 hours be controlled, one-half by a majority member of the Ways and Means Committee and one-half by a ranking minority member of the Ways and Means Committee.

This is not a part of the unanimous-consent request, Mr. Speaker, but may I say that both of those gentlemen, I know, will see that the time is apportioned equally and fairly between Members who are in favor of and in opposition to this particular provision.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts [Mr. McCORMACK]?

There was no objection.

PRIVATE CALENDAR

Mr. McCORMACK. Mr. Speaker, I ask unanimous consent that the call of bills on the Private Calendar for Tuesday of next week be dispensed with.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts [Mr. McCORMACK]?

Mr. MICHENER. Mr. Speaker, reserving the right to object, can the majority leader give us an idea what the program will be for next week?

With the following committee amendment:

Page 1, line 6, after the word "reenacted", insert "*Provided*, That this act shall be null and void unless the actual construction of the bridge herein referred to be commenced within 1 year and completed within 3 years from the date of approval hereof."

The committee amendment was agreed to.

Mr. COLE of New York. Mr. Speaker, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. COLE of New York: On page 2, after line 2, insert a new section, as follows:

"SEC. 2. No toll or other charge shall be levied against any military vehicle owned by the United States Government."

Mr. COLE of New York. Mr. Speaker, this is a very unusual bill, in that it revives and reenacts a bill which was passed by the Congress last year, and, as far as I know, is still alive. However, its reenactment will do no harm. The amendment I have offered I hope will be agreeable to the author of the bill and make it conform to the other toll-bridge bills.

Mr. STEFAN. Will the gentleman yield?

Mr. COLE of New York. I yield.

Mr. STEFAN. It is very agreeable to me, and I am sure to those who are interested in the construction of the bridge.

The SPEAKER. The question is on the amendment offered by the gentleman from New York [Mr. COLE].

The amendment was agreed to.

The SPEAKER. Without objection the figure "2" in line 3 will be changed to the figure "3."

There was no objection.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

PENSIONS FOR SPANISH-AMERICAN WAR VETERANS

Mr. SMITH of Washington. Mr. Speaker, by direction of the Committee on Pensions, I call up the bill (H. R. 1782) to provide Spanish War veterans wartime pension rates for service-connected disability or death of certain veterans of the Spanish-American War recognized by veterans regulations as "veterans of any war," and for other purposes, and ask unanimous consent that it be considered in the House as in Committee of the Whole.

The Clerk read the title of the bill.

The SPEAKER. Is there objection?

There being no objection, the Clerk read the bill, as follows:

Be it enacted, etc., That Veterans Regulation No. 1 (a), as amended (U. S. C., 1934 ed., title 38, ch. 12, appendix), is further amended by adding to paragraph 1 of part II the following subparagraph:

"(d) Any veteran or the dependents of any deceased veteran who served in the military or naval service of the United States between August 13, 1898, and July 4, 1902 both dates inclusive, and who left the continental United States under orders for military or naval service in Guam, Cuba, or Puerto Rico between such dates who is otherwise entitled to pension under the provisions of part II of this regulation based upon such service shall be entitled to receive the rate of pension provided in part I of this regulation."

With the following committee amendment:

Page 2, in line 6, after the word "regulation", insert "and amendments thereto, and subject to the conditions and limitations prescribed therefor,."

The committee amendment was agreed to.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

GRANTING PENSIONS AND INCREASE OF PENSIONS TO CERTAIN SOLDIERS AND SAILORS, ETC.

Mr. SMITH of Washington. Mr. Speaker, by direction of the Committee on Pensions, I call up the bill (H. R. 2310) to amend section 2 of the act entitled "An act granting pensions and increase of pensions to certain soldiers, and sailors of the War with Spain, the Philippine Insurrection, or the China Relief Expedition, to certain maimed soldiers, to certain widows, minor children, and helpless children of such soldiers and sailors, and for other purposes", approved May 1, 1926, and I ask unanimous consent that it be considered in the House as in Committee of the Whole.

The Clerk read the title of the bill.

The SPEAKER. Is there objection?

There being no objection, the Clerk read the bill, as follows:

Be it enacted, etc., That section 2 of the act entitled "An act granting pensions and increase of pensions to certain soldiers and sailors of the War with Spain, the Philippine Insurrection, or the China Relief Expedition, to certain maimed soldiers, to certain widows, minor children, and helpless children of such soldiers and sailors, and for other purposes," approved May 1, 1926 (Public, No. 166, 69th Cong., 1st sess.), wherein for pension purposes the marriage date is defined as September 1, 1922, be, and the same is hereby, amended by striking out the date "September 1, 1922" and inserting in lieu thereof the date "January 1, 1938."

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

PENSIONS FOR CHILDREN OF VETERANS

Mr. SMITH of Washington. Mr. Speaker, by direction of the Committee on Pensions, I call up the bill (H. R. 2096) to provide that pensions otherwise payable for a child of a deceased veteran of the Spanish-American War, Boxer Rebellion, or Philippine Insurrection shall continue until the child reaches the age of 21 where he is attending accredited school, and for other purposes, and I ask unanimous consent that it be considered in the House as in Committee of the Whole.

The Clerk read the title of the bill.

The SPEAKER. Is there objection?

There being no objection, the Clerk read the bill, as follows:

Be it enacted, etc., That pension otherwise payable to or for a child of a deceased veteran of the War with Spain, including the Boxer Rebellion and the Philippine Insurrection, under the laws reenacted by Public Law No. 269, Seventy-fourth Congress, approved August 13, 1935, shall be continued after such child becomes 16 years of age and until such child marries or becomes 18 years of age, except that payment of pension shall be further continued after the age of 18 years and until completion of education or training (but not after such child reaches the age of 21 years) to or for any unmarried child who is or may hereafter be pursuing a course of instruction at any school, college, academy, seminary, technical institute, or university, particularly designated by him and approved by the Administrator, which shall have agreed to report to the Administrator the termination of attendance of such child, and if any such institution of learning fails to make such report promptly the approval shall be withdrawn: *Provided*, That in case a minor child is insane, idiotic, or otherwise mentally or physically helpless the pension shall continue until marriage or death, but only during the period of such disability.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

SPANISH WAR VETERANS

Mr. SMITH of Washington. Mr. Speaker, by direction of the Committee on Pensions, I call up the bill (H. R. 5339) granting increases in pensions to certain widows and dependents of persons who served in the military or naval forces of the United States during the War with Spain, the Boxer Rebellion, or the Philippine Insurrection, and ask unanimous consent that it be considered in the House as in the Committee of the Whole.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Washington?

There being no objection, the Clerk read the bill, as follows:

Be it enacted, etc., That, effective on the first day of the month next following the date of enactment of this act, the rates of death compensation provided for the dependents of World War veterans by section of Public Law No. 198, Seventy-sixth Congress, July 19, 1939 (U. S. C., title 38, sec. 472b), subject to the limitation contained in the last sentence of the second paragraph of said section 5, as amended by this act, shall be payable as death pension to the dependents of veterans of the Spanish-American War, including the Philippine Insurrection and Boxer Rebellion, entitled to death pension under the provisions of paragraph IV, part I of Veterans Regulation No. 1 (a), as amended, and to the dependents of veterans entitled to death pension under the provisions of paragraph I (c), part II of Veterans Regulation No. 1 (a), as amended, where the veteran's death resulted from an injury received in line of duty in actual combat in a military expedition or military occupation.

SEC. 2. Effective on the first day of the month next following the date of enactment of this act, the last sentence of the second paragraph of section 5 of Public Law No. 198, Seventy-sixth Congress, July 19, 1939 (U. S. C., title 38, sec. 472b), is hereby amended to read as follows: "The amount of compensation herein authorized shall be paid in the event the monthly payment of compensation under Veterans Regulation No. 1 (g), and the monthly payment of yearly renewable term or automatic insurance, or national service life insurance does not aggregate or exceed the amount of compensation herein authorized: *Provided*, That persons entitled to pension or compensation on account of the death, disability, or service of more than one person, if otherwise entitled, shall be paid the increased rates provided by this section."

The bill was ordered to be engrossed and read a third time, was read the third

time, and passed, and a motion to reconsider was laid on the table.

Mr. MICHENER. Mr. Speaker, as a Spanish-American War veteran, I have been intensely interested in the enactment of the four bills which have just passed the House.

It is a tribute to these veterans, to the integrity of the committee reporting the bills, and to the justice of the bills, that this important legislation should pass the House unanimously. The printed committee reports are very complete and all the details of these bills are fully explained. I join with other Members in the hope that the Senate will report and pass these bills at the earliest opportunity.

Mr. ROBSION of Kentucky. Mr. Speaker, I was very glad to be present today and help to pass H. R. 2310, H. R. 2096, H. R. 1782, and H. R. 5339 for the benefit of the veterans who served in the Spanish-American War, the Philippine Insurrection, Cuba, Puerto Rico, and Guam, between August 13, 1898, and July 2, 1902, and the widows and orphans of these veterans. I especially appreciate this action on the part of the House at this time. The Congress has appropriated and given contractual authority for the national defense in the past 18 months for approximately $55,000,000,000 and it is most gratifying to me to know that the House of Representatives has not forgotten those gallant men who loyally and heroically defended our country during some period of time between August 13, 1898, and July 4, 1902, and their dependents. The widow of a Spanish-American War veteran must have married the veteran prior to September 1, 1922, in order to be eligible for pension. H. R. 2310 moves up the marriage date to January 1, 1938.

H. R. 1782 greatly benefits the veterans and the dependents of deceased veterans who served in the military or naval forces of the United States between August 13, 1898, and July 4, 1902.

H. R. 5339 grants pensions to certain widows and dependents of persons who served in the military or naval forces of the United States during the War with Spain, the Boxer Rebellion, or the Philippine Insurrection.

H. R. 2096 likewise benefits the veterans and their dependents who served for a period between August 13, 1898, and July 4, 1902.

We may need loyal and patriotic Americans soon again to defend this country. The action taken in the House today and if ratified by the Senate and approved by the President will be most encouraging indeed to those who are called up to serve our country again. Let us indulge the hope the President will get behind these just and salutary measures so that we may have action in the Senate in the very near future and the veterans and their dependents coming within the scope of this legislation may receive the benefits provided therein for them.

EXTENSION OF REMARKS

Mr. SHEPPARD. Mr. Speaker, I ask unanimous consent to extend my own remarks in the RECORD by including an address I made before the General Welfare Federation of America on July 12, 1941.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

Mr. BOEHNE. Mr. Speaker, I ask unanimous consent to extend my remarks in the RECORD by including correspondence between the President of the United States and the chairman of the Committee on Ways and Means.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

REVENUE BILL—1941

Mr. DOUGHTON. Mr. Speaker, I move that the House resolve itself into the Committee of the Whole House on the state of the Union for the further consideration of the bill (H. R. 5417) to provide revenue, and for other purposes.

The motion was agreed to.

Accordingly the House resolved itself into the Committee of the Whole House on the state of the Union for the further consideration of the bill (H. R. 5417) to provide revenue, and for other purposes, with Mr. COLE of Maryland in the chair.

The Clerk read the title of the bill.

The CHAIRMAN. General debate has been concluded. The bill is now open for amendment.

Mr. COOPER. Mr. Chairman, at the request of the committee and by the direction of the Committee on Ways and Means, I offer a committee amendment.

The Clerk read as follows:

Committee amendment to H. R. 5417: Page 62, line 24, after the quotation marks, insert "(a) Manufacturers' tax.—"

Page 63, line 3, strike out the quotation marks.

Page 63, after line 3, insert the following new subsection:

"(b) Floor-stocks tax: On matches subject to tax under subsection (a) which, on the effective date of part IV of title V of the Revenue Act of 1941, are held and intended for sale, or for disposition in connection with the sale of other articles, there shall be levied, assessed, collected, and paid a floor-stocks tax at the rate of 2 cents per thousand matches. The tax shall not apply to matches in retail stocks held at the place where intended to be sold or disposed of. The tax shall not apply to matches held for sale by the manufacturer, producer, or importer thereof, nor to fancy wooden matches or wooden matches having a stained, dyed, or colored stick or stem."

Mr. COOPER. Mr. Chairman, this committee amendment imposes a floor-stocks tax on matches which are held by retailers and wholesalers. The tax does not, however, apply to matches held by any person in his retail stock at the place of retail sale.

Mr. COFFEE of Washington. Mr. Chairman, will the gentleman yield?

Mr. COOPER. I yield.

Mr. COFFEE of Washington. Mr. Chairman, I have a letter from the Pacific Match Co., of Tacoma, Wash., in which this comment is made:

Newspaper items here advised a change in tax on matches, in that matches will be taxed 2 cents per thousand on all floor stocks except in retailers' hands.

These people seem to be concerned I may say to the gentleman from Tennessee as to whether or not this tax will benefit the chain stores. They are particularly worried about stocks in the hands of such concerns as the A. & P. and others. They make this further statement:

I am inclined to think there is a lot of meaning to the above, and our complaint, of course, is personal because most of the buying units are controlled in the East and, of course, are served by the eastern companies, practically all of them by the Diamond Match Co., who controls 80 percent of the industry through its subsidiaries.

Their concern, I may say to the gentleman from Tennessee, is that this amendment offered by the committee may seem to be beneficial to the large companies and have a direct detrimental effect upon retailers as contradistinguished from chain stores.

Mr. COOPER. Mr. Chairman, I may say in reply to the gentleman from Washington that I think he is mistaken, because the tax will apply to all matches in warehouses or in the hands of wholesalers or jobbers, and treats all of them exactly alike. In other words, a chain-store organization that has a large supply of matches in its warehouse will be taxed just like all the others who have stocks in warehouse.

Mr. COFFEE of Washington. I appreciate the reassurance the gentleman has given.

The CHAIRMAN. The question is on the amendment offered by the gentleman from Tennessee.

The amendment was agreed to.

Mr. ROBSION of Kentucky. Mr. Chairman, I was on my feet seeking recognition. I ask that the vote be set aside that I may be heard. Time for debate on the amendment had not expired.

The CHAIRMAN. Without objection, the proceedings by which the amendment was agreed to will be vacated.

There was no objection.

Mr. ROBSION of Kentucky. Mr. Chairman, I rise in opposition to the amendment for the purpose of asking a question.

Will the gentleman inform the House whether this amendment applies to all matches of all types?

Mr. COOPER. This amendment applies to matches included in the bill upon which a 2-cents-per-thousand tax is levied.

Mr. ROBSION of Kentucky. What amount of money does the committee expect this tax will raise?

Mr. COOPER. The gentleman means the amendment or the tax item in the bill?

Mr. ROBSION of Kentucky. The amendment.

Mr. COOPER. My recollection is that the amendment will raise something like $100,000. The main purpose of the amendment, however, is to prevent disruption of the trade and in the interest of fairness and equity to all concerned.

Mr. ROBSION of Kentucky. I thank the gentleman.

The CHAIRMAN. The question is on the amendment offered by the gentleman from Tennessee.

The amendment was agreed to.

Mr. COOPER. Mr. Chairman, I offer another committee amendment, which I send to the Clerk's desk.

The Clerk read as follows:

Committee amendment offered by Mr. COOPER: Page 63, strike out lines 5 and 6 and insert:

"Sections 3465 and 3466 of the Internal Revenue Code are amended to read as follows:".

Page 64, line 16, strike out the quotation mark.

Page 64, after line 16, insert the following:

"SEC. 3466. Exemption from tax.

"(a) No tax shall be imposed under section 3465 upon any payment received for services or facilities furnished to the United States or to any State or Territory, or political subdivision thereof, or the District of Columbia.

"(b) No tax shall be imposed under section 3465 (a) (1) and (2) upon any payment received from any person for services or facilities utilized in the collection of news for the public press or radio broadcasting, or in the dissemination of news through the public press or by means of radio broadcasting, if the charge for such services or facilities is billed in writing to such person. Section 3465 (a) (3) shall not be construed as imposing a tax on services and facilities described in section 3465 (a) (1) or (2) which are exempt from tax under this subsection.

"(c) The right to exemption under this section shall be evidenced in such manner as the Commissioner with the approval of the Secretary may by regulation prescribe."

Mr. COOPER. Mr. Chairman, this committee amendment subjects newspapers and radio broadcasters to the monthly local telephone bill tax. It does not remove the exemption of existing law from the tax on toll calls or the tax on leased wires and similar facilities. In other words, under the provisions of this bill a tax is imposed on local telephone bills. By inadvertence this provision was not made applicable to local newspapers and radio-broadcasting stations.

This simply means that on the telephone bill for the local service to a newspaper office a tax will be imposed the same as on the telephone bill for your residence or mine or anybody else's.

Mr. ROBSION of Kentucky. Will the gentleman yield?

Mr. COOPER. I yield to the gentleman from Kentucky.

Mr. ROBSION of Kentucky. I would like to know what amount of money this amendment will likely raise?

Mr. COOPER. There is no separate estimate for this amendment for the reason that the whole amount was estimated on the provision of the bill originally. This committee amendment simply takes care of an inadvertence.

The CHAIRMAN. The question is on the amendment offered by the gentleman from Tennessee [Mr. COOPER].

The committee amendment was agreed to.

Mr. COOPER. Mr. Chairman, I offer another committee amendment, which I send to the Clerk's desk.

The Clerk read as follows:

Committee amendment offered by Mr. COOPER: Page 86, strike out paragraphs (1), (2), and (3) of the schedule and insert in lieu thereof the following:

"(1) Not more than 100 square feet, $1.

"(2) More than 100 and not more than 200 square feet, $2.

"(3) More than 200 and not more than 300 square feet, $3.

"(4) More than 300 and not more than 400 square feet, $5.

"(5) More than 400 and not more than 600 square feet, $8.

"(6) More than 600 square feet, $11."

Mr. COOPER. Mr. Chairman, this committee amendment revises the rate schedule of the billboard tax. It provides a $1 rate instead of a $5 rate for billboards of not more than 100 square feet; a $2 rate instead of a $5 rate on billboards of 100 and not more than 200 square feet, a $3 rate instead of a $5 rate on billboards more than 200 and not more than 300 square feet, and a $5 rate instead of an $8 rate on billboards more than 300 and not more than 400 square feet. In other respects it is the same as the schedule reported in the bill.

Mr. TREADWAY. Will the gentleman yield?

Mr. COOPER. I yield to the gentleman from Massachusetts.

Mr. TREADWAY. I would like to make two inquiries of the gentleman. I understand the changes the committee has agreed on are based on the fact we do not want to tax billboard posters more than they receive for the space they sell. That question was involved, and this amendment corrects that?

Mr. COOPER. Yes; the distinguished gentleman from Massachusetts will recall that it was brought to the attention of the committee that the $5 tax provided in the bill should be graduated downward so as to take care of the smaller-sized billboards in a fairer and more equitable manner. That is what this amendment does.

Mr. TREADWAY. That is my understanding, but I wished it to be clearly understood. The other inquiry I desire to make of the gentleman from Tennessee is this: I believe the question came up in our committee in reference to space donated by the billboard people for Government and patriotic purposes. I understand the drafting service was unable to prepare a suitable amendment for the committee to suggest at this time, but it is understood the question is to come before the other body when the bill is over there, and by that time the drafting service expects to correct that situation?

Mr. COOPER. The gentleman is correct. Considerable interest was expressed by the distinguished gentleman from Massachusetts and other members of the committee with respect to space on billboards donated to the Government, advertising the recruiting campaign for men for service in the Army, Navy, Marine Corps, and other activities of that kind. An effort was made to work out some provision to meet this situation, but it was reported to the committee this morning that the drafting service had not been able to completely work out such a provision. It is understood they will continue their efforts, and if something along that line can be worked out it will be submitted to the committee in the other body.

Mr. ROBSION of Kentucky. Will the gentleman yield?

Mr. COOPER. I yield to the gentleman from Kentucky.

Mr. ROBSION of Kentucky. The other day when this matter was up it was stated by a member of the Ways and Means Committee that an amendment would be offered which would be reasonably satisfactory to the billboard advertisers. Is this amendment reasonably satisfactory to the billboard advertisers?

Mr. COOPER. Well, unfortunately I am not prepared to assure the gentleman on that point. I think it does improve the situation. Certainly it goes much further from the viewpoint of fairness and equity in that it begins with a signboard of 100 square feet, leaving a $1 a year tax on that, and graduates on up according to the size of the billboard, and the tax is increased according to the space of the billboard.

Mr. ROBSION of Kentucky. I understood that.

[Here the gavel fell.]

Mr. ROBSION of Kentucky. Mr. Chairman, I ask unanimous consent that the gentleman may proceed for 1 additional minute.

The CHAIRMAN. Is there objection to the request of the gentleman from Kentucky [Mr. ROBSION]?

There was no objection.

Mr. ROBSION of Kentucky. The telegrams and letters I have received complain about this tax because of its discrimination against the billboard people and in favor of other advertising methods. Does it really discriminate against other advertising methods or not?

Mr. COOPER. That is a matter of opinion.

Mr. ROBSION of Kentucky. What is the gentleman's opinion?

Mr. COOPER. When you levy a tax on one item in a certain field and do not cover other items in the same field, there is some justification for the claim there is a degree of discrimination. In other words, a billboard advertises certain things and space in a newspaper advertises certain things. The bill proposes a tax on the billboard but not on the newspaper.

Mr. ROBSION of Kentucky. Do the newspapers pay a tax, or do other forms of advertising?

Mr. COOPER. They do not pay a specific tax of this type.

Mr. ROBSION of Kentucky. I know they do not pay a specific tax, but do they pay a tax that is comparable to this other tax?

Mr. COOPER. No; not exactly like it.

[Here the gavel fell.]

Mr. MARTIN J. KENNEDY. Mr. Chairman, I rise in opposition to the committee amendment because I am opposed, not to the reduction in the rate proposed on billboards, but to the principle of placing any form of tax on advertising.

The bill contains the following language:

PART XI—OUTDOOR ADVERTISING

SEC. 3269. Tax on outdoor advertising.

(a) Tax: Every person who engages in business as a lessor of billboards for outdoor advertising shall pay with respect to each billboard maintained or controlled by him for use in such business a special tax at the following rates:

* * * * *

(c) Definitions: As used in this section—

(1) The term "billboard" means any outdoor structure or device primarily designed for the display of advertising matter, and

includes so-called sign space on the exterior of a building the use of which is controlled by a person engaged in business as lessor of billboards for outdoor advertising.

(2) The term "lessor" means any person who maintains or controls the use of billboards and, for compensation, displays advertising matter thereon for another person or permits the display of advertising matter thereon by another person.

By the very language of the bill the Ways and Means Committee has excluded more outdoor boards than they have included for taxation. The only boards that will be subject to tax are those boards which are owned or controlled by one "who engaged in business as a lessor of billboards." There are five times as many outside this classification as there are within the classification.

If we are going to adopt the policy of taxing outdoor advertising to raise revenue then let us apply the formula so as, to include all forms of outdoor advertising, and not limit the tax to boards of the advertising companies.

As you know, this section of the tax bill was added by the Ways and Means Committee at the last minute, and no hearings were had on the merits of this section. I am sure that a public hearing would disclose the fallacy of this form of taxation, and undoubtedly the whole section would have been stricken from the bill.

Industrial and business success in the United States is based on mass production. That is the American method. Mass production of standard merchandise to be sold at a fair price. Advertising; all forms of advertising—are a factor in the distribution of these goods. That is advertising's function—to economically distribute and dispose of the Nation's products by creating a mass desire on the part of the buying public to acquire standardized products at a fair price. Mass production; mass distribution based on the stimulus derived from advertising to keep turning over the merchants' products and to keep our factories running—that is the American way.

It obviously follows that it is unwise and unsound to tax the factor that stimulates industrial activity. The sound procedure is to tax the results of business, rather than the means of doing business.

Therefore it is unsound in principle to tax advertising, because by doing so, you retard and cripple industrial activity on a Nation-wide scale. All economists admit the truth of the above principle. That feature of the revenue bill is unwise in principle and should be modified and changed.

Moreover, the bill as drawn is palpably unfair and discriminatory, as it applies to various classes of advertising, which violates the fundamental rule of an excise tax—that it should be uniform and apply equally to all classes affected. The proposal, as drawn, taxes billboards and radio—but does not tax newspaper or magazine advertising at all. These two media constitute a much larger field of advertising, and if the wise economic theory is to be violated—of course, all media should be taxed equally, because otherwise the effect of the law, by its discriminatory features, will be to create an unfair differential of the advertiser's dollar in favor of newspaper and magazine advertising, with the obvious ultimate results of defeating the very purpose of the bill because it will drive the advertisers to use almost exclusively the untaxed media. This result is inevitable in a field of business activity which is so highly competitive. The section should be amended by taxing all media equally—or the section should be eliminated in its entirety.

All billboards should be taxed—or none. The proposal, as drawn, does not include more than about 10 percent of the billboards in the United States. In principle, all should be taxed or none—otherwise the application of the law is unfair and creates an injustice. This should be remedied by amending the bill to tax every sign and billboard in the United States, or by eliminating the section entirely.

Mr. SHANLEY. Will the gentleman yield?

Mr. MARTIN J. KENNEDY. I yield to the gentleman from Connecticut.

Mr. SHANLEY. I thank the gentleman for yielding and giving me the opportunity of asking him a question. I know that he has made a thorough study of the entire subject of advertising and I know that he must feel the tremendous burden this places on the industry as a whole. Is it not a fact also, that this burden falls just as hard on those advertising companies who have displays on properties of common carriers, concerning the incidents of which tax there is a sharp constitutional doubt?

Mr. MARTIN J. KENNEDY. The gentleman is absolutely right, and I agree with his views.

The CHAIRMAN. The question is on the committee amendment offered by the gentleman from Tennessee [Mr. COOPER].

The committee amendment was agreed to.

Mr. COOPER. Mr. Chairman, this completes the committee amendments.

Mr. BUCK. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. BUCK: On page 13, beginning in line 5, strike out all of section 111.

Mr. BUCK. Mr. Chairman, since I went into this subject rather fully the other day, I do not feel it necessary to develop the entire line of thought that was then presented to the committee. I can only state that the amendment is offered because 10 members of the committee voted against the proposal, and 5, all who were present the day the report was filed, signed the dissenting report. Those of us who did so feel that it is inequitable and unfair and creates a new discrimination.

Husband and wife may be one in theory, but the manner in which they have obtained the property they own may be entirely different. Each may have had separate estates before marriage, and they are entitled to the income from those separate estates and to have it reported separately instead of having it added together to make a fictitious sum which is neither the income of the husband nor the income of the wife.

Section 111 received no discussion whatever in the public hearings of the committee. The printed record of the hearings discloses that the committee listened to the protests of 110 representatives of the tobacco industry, 73 representatives of the gasoline industry, 8 from the musical-instruments industry, 8 from the carbonated beverages industry, and 9 representatives of candy manufacturers, as well as 7 representatives of the liquor distillers and 10 of the beer brewers, yet not one woman or one woman's organization was extended the courtesy or the opportunity of voicing their opinion on this proposition or speaking in defense of their rights as individuals or in defense of the American home.

It has been suggested that only 175,000 families will be affected by this tax. These figures are based on the 1938 income-tax returns. They do not take into consideration the increase in the surtax rates which is made in this bill. They do not take into consideration any of the other factors. It is safe to say that instead of 175,000 families being affected by the proposal to file mandatory joint returns, there will be several million families affected, and affected adversely. In certain States the enactment of such a law as this will necessarily result in property readjustments. In all States it will affect a certain percentage of those who are now the chief producers of revenue for the United States Government.

It is to me an iniquitous proposal chiefly for the reason that it affects adversely the rights of women for which they have struggled for years and years in order to become legally separate entities. Once upon a time, at least in the common-law States, when a woman married all her personal possessions became those of her husband. She was his chattel. Many States, such as Michigan, found it necessary to enact what are known as married women's laws in order to overcome that principle of law which then existed. If we adopt this section, we are now taking a retroactive step creating discrimination and inequity.

[Here the gavel fell.]

The CHAIRMAN. Under the agreement of the House entered into on Friday debate on this amendment is limited to 2 hours, 1 hour to be controlled by the gentleman from North Carolina [Mr. DOUGHTON] and 1 hour to be controlled by the gentleman from Massachusetts [Mr. TREADWAY].

Mr. DOUGHTON. Mr. Chairman, I yield 5 minutes to the gentleman from Texas [Mr. WEST].

Mr. WEST. Mr. Chairman, it is generally conceded the Ways and Means Committee is the most important committee in the House. It has been my honor and pleasure to serve on this great committee for more than 2 years. During this period of service I have found each and every member to be entirely sincere and honest in his efforts to perform his full duty without regard to political effect and largely with no thought of party politics. I have also discovered the membership is human, not divine; hence they at times commit errors and make mistakes. It is almost impossible to see the other fellow's problem as you

see your own; to see and understand a stranger's troubles as those of a constituent and friend.

The membership of the Ways and Means Committee being but humans have committed some grievous errors and mistakes in reporting and recommending this tax bill in its present form. There are several items in the bill imposing taxes on various articles and persons on which no hearings were held. We set out to raise a certain amount of money, and when, after the hearings were completed, it was discovered the items discussed would not produce the estimated needed revenue, the committee without hearings, in its wisdom and understanding reached up into thin air, pulled down and placed in the bill items of taxation which will produce approximately $350,000,000. I refer specifically to the proposed tax on billboard advertising, gross sales of net time by radio broadcasters, and the mandatory joint-tax returns.

Personally, it appears to me that orderly procedure in the House should require a point of order to lie against any item in a tax bill when it is brought to the attention of the House membership that such item is reported without hearings having been held thereon.

Let me illustrate: The bill as reported imposed a tax of $5 on each and every billboard advertising, gross sales of net tain circumstances. No hearings were held and few if any members of the committee knew anything of the billboard advertising business. People in the business were given no opportunity to explain how such a tax would wreck and ruin this industry. After the bill was reported and the industry for the first time learned of the committee's action it pointed out to some of the committee membership how utterly unfair the action had been. A tax of $5 per year was to be imposed on billboards that were under lease contract for $4.80 per year gross. I am glad to state that when this was called to the attention of the committee a meeting was held and it was agreed to rewrite the proposed billboard tax, in conformity with the rule adopted for the consideration of the bill, so the proposed tax will not be confiscatory, and this industry driven out of business.

The radio broadcasters did not receive such reasonable consideration. The committee proposes and recommends what in effect is a gross sales tax on this industry. If the proposal becomes a law, a broadcaster may operate at a heavy loss and yet be compelled to pay an enormous tax. Not only that, while we seek to collect this unfair and discriminatory tax from broadcasters, some of their competitors are not taxed, and are in fact subsidized by the Government in the amount of nearly $80,000,000 per year.

So far as I have been able to ascertain few members of the committee really have any conception of the amount of damage that may be done by the imposition of the proposed mandatory joint returns. It may be well to, by a loosely drawn clause in a tax bill, wipe out many of the rights that have been given to women at the end of centuries of struggle, but to this I cannot agree. They are entitled to their day in court; they are humans and certainly entitled to consideration. There is much misconception as to community property laws, and its effect. An explanation might not be out of order.

Under the Texas Constitution and laws controlling the relationship of husband and wife and their respective rights of property, the wife owns a full one-half of all community property and income. Her ownership vests immediately upon the acquisition of the property by the marital partnership, continues throughout the marital relationship, is not subject to forfeiture or divesture; upon dissolution of the marriage relation by divorce is segregated and allotted to her; and at her death passes to her heirs, devisees, and legatees in the same manner as her other property. Her ownership is not a mere expectancy but full and unconditional present title.

Such statutory control over, and power of disposition of, community property and income as is conferred upon the husband and wife respectively by the Constitution and laws of Texas are mere statutory delegations of agency powers over the assets of the marital partnership. Such control is a matter which is quite distinct from an owner's ordinary and incidental right to control and dispose of his own property. Under the laws of Texas, an owner of an interest in community property may have certain statutory and revocable powers of control and disposal and also, at the same time, such irrevocable powers of control and disposal as every owner of property incidentally enjoys in common-law States.

Creditors of the wife have a right to resort to community property to enforce payment of certain debts of the wife.

The husband's obligation to support the wife is based chiefly but not entirely upon their common property and common earnings and if he fails to furnish such support as the common property and common earnings enable him to furnish, the wife may bind him and the common property for her support.

Debts contracted by the wife for her support are enforcible against the entire community property and not merely against her share of the common property. The common property is a common fund for the common support of both husband and wife. Such support is one of the aims of the common partnership.

In a great variety of cases the wife may sue or be sued respecting the community property during the existence of the community, and in all such cases, either alone or joined by her husband, is a proper party to a suit involving community property.

Upon the dissolution of the community the wife's portion of community property is inheritable by her heirs or devisable by her.

Certain items of community property are expressly declared by statute to be immune from seizure for the husband's debts and torts. None of the community property is subject to debts of the husband, contracted in fraud of the wife.

The husband, while acting in good faith as the managing partner, may expend those portions of the community property which are under his power of control and disposal. He may not expend them in fraud of her rights, nor in violation of his marital obligations to her. In proper case the wife may sue him or any stranger to restrain wrongful action by him or to establish and recover her interest in such property.

The wife has the right to subject all community property to her debts for necessaries and the right to subject those portions of community property over which she has power of control and disposal to all her debts. The husband's obligation to support her rests not only upon his social duty but also upon her assumed contributions to the marital partnership. She has the legal right to be supported out of the community and to support herself out of it if necessary.

The wife may sue or be sued with respect, not only to those portions of the community property which are put under her exclusive control but also with respect to any other portion of the community property, and in case of the husband's abandonment of her, his imprisonment, insanity, or other delinquency or incapacity, she becomes the managing partner of the marital enterprise.

On dissolution of the marriage relationship by the death of the wife, her interest—one-half—in community property descends to her heirs or passes by her will but subject to community debts and expenses of administration. If the marriage be dissolved by divorce she takes her net half of the community property directly. In connection with divorce proceedings, she can protect her interests by suit and injunction. By law the husband is forbidden to defraud her. The community property at her death or divorce is subject to her debts and to administration.

Whether the wife or the husband survives, the wife owns at all times her full net one-half of the community estate. If she survives him she may liquidate the assets of the community partnership as any other surviving partner. She may qualify as survivor and administer as such unless and until she remarries. She may apply for letters of administration in the usual way. In any event, she must account to the heirs, devisees, legatees, and legal representatives of the husband for his net one-half of the community estate.

The wife is the absolute owner of a full net one-half of community property and must be allotted that interest, in case of divorce, whether the divorce be granted at her instance or at the instance of the husband, and whether or not she has been guilty of adultery, cruel treatment, or other misconduct, subject only to the general equitable powers of the court.

The entire community property is liable for the wife's debts arising before marriage, for her debts after marriage for necessaries for herself and children, for her taxes, whether income or ad valorem, and that portion of the community property which is then under her control, and her separate property is subject to all her valid debts. Because a net one-half of the community income is hers, she alone is liable for the tax on

it, and she alone can be compelled to pay the tax on it. The husband cannot lawfully be taxed on her income, but the entire community property can be seized for the tax of either husband or wife.

It has always been my understanding that the sole and only purpose of a tax bill is to raise revenue. When we lose that objective and wander off into the field of punitive, class, and discriminatory taxes, invade State rights, void State constitutions, repeal State laws, and impose unconstitutional taxes we have headed our Government for wreck and ruin. All these things we are seeking to do in this bill. For these reasons it is my opinion the motion seeking to strike out section 111 of the bill should be adopted.

Mr. TREADWAY. Mr. Chairman, I yield 10 minutes to the gentleman from Minnesota [Mr. KNUTSON.]

Mr. KNUTSON. Mr. Chairman, I can well understand the position taken by those Representatives who come from the community-property States, but I cannot for the life of me reconcile the position taken by those who come from non-community-property States, because in voting to strike out this amendment they, in effect, vote to maintain a gross inequality in our present tax system. In other words, the Representatives from non-community-property States who vote to strike out section 111 will vote to continue the present order under which their constituents have to pay a heavier tax than do those people who come from community-property States and make joint returns. I wish the Republicans here could go into an executive session so I could talk frankly to them. That, however, cannot be, so I shall have to do the best I can, with all of these new dealers listening in. You know we have had a lot to say in the last few years about rubber-stamp Congressmen. We have accused the other side, times without number, of being nothing but rubber stamps. I call attention to Secretary Morgenthau's letter to the President, dated July 31. In paragraph 1, referring to mandatory joint returns, the paragraph ends up with this language:

> Therefore, in this important respect the pending bill is inconsistent with the Treasury's suggestions.

That is one. Then, read paragraph 2, under the head of excess-profits taxes, and we find this language at the end of it:

> Therefore in another important respect, the pending bill is inconsistent with the Treasury's announced purpose.

Then we have the President's letter to the committee, a most unusual thing. I cannot recall in all of the years that I have been a Member of this House, and that is for a quarter of a century, where a President of the United States has assumed to advise Congress on pending legislation; and this body, regardless of what side of the aisle you occupy, may be proud that the committee very properly rebuked that attempt on the part of the Chief Executive to intrude himself on our prerogatives.

Mr. Chairman, this mandatory joint return is going to bring $325,000,000 alone to the Treasury. If section 111 is eliminated, we will have to turn elsewhere for that $325,000,000, and I do not think I am violating any confidence when I tell this Committee that the Ways and Means Committee held an informal meeting this morning to consider the whole matter, including several other things, and the majority announced if this bill be recommitted to the Committee on Ways and Means, that it will vote to adopt the Treasury Department's recommendation in respect to surtaxes on personal incomes. Let us see what you are going to get if you vote out the compulsory joint return. I will give you the case of a married man with no dependents. On an income of $2,500 the committee proposal would levy a tax of $38.50, while the Treasury proposal, which we will have to adopt if you folks run loco this afternoon, is $71.50. On a $5,000 income the committee proposes to levy $308, while the Treasury request is $506, or nearly twice as much. On a $10,000 income—and countrymen, lend me your ears—the committee proposes to levy a tax of $1,166, but the Treasury would impose a tax of $1,628. On a $25,000 income the difference is only about $300, and it gets closer and closer as you go higher. So, if you knock this section 111 out, you are going to soak the little fellow who has an income of a few thousand dollars, and you are going to hear from the folks back home in the next campaign. I would not ask for anything better, if I wanted to go to Congress, than to have my Congressman vote to remove this section and permit the inequality that now exists to continue. I would not ask anything better than that kind of an issue, and I would make a monkey out of him long before the votes were counted. It is all right if the Democrats want to vote to maintain this inequality. That is all right with me, because it is not the first time that they have voted for an inequality, but the Republican Party has always stood for a square deal, and I call upon you Republicans today to live up to the traditions of the great party to which you belong.

I yield back the remainder of my time.

The CHAIRMAN. The gentleman yields back 2 minutes.

Mr. DOUGHTON. Mr. Chairman, I yield 2 minutes to the gentlewoman from New Jersey [Mrs. NORTON].

Mrs. NORTON. Mr. Chairman, I regret very much that I find myself in disagreement with the able chairman of the Committee on Ways and Means. I realize the difficulty the committee has had and how impossible it is to write a tax bill that is acceptable to all of us. However, I am opposed to that part of the the bill requiring joint returns by husband and wife, may I say not because of the many ridiculous references I have heard regarding divorce in connection therewith, for it is my opinion that most marriages are built upon a much firmer foundation than tax returns; but rather because I do consider it a discrimination that should not exist. Whether a woman is married or unmarried should not be the basis upon which her tax bill is computed. The principle, as I see it, is all wrong. Most women are willing to pay a just tax on their income, but they are not willing to be penalized because they happen to be married.

Another reason I am opposed to it is that at this time many women will be called upon to assume added responsibilities caused by the defense program, and they will be obliged to work in order to make up the deficit caused by their husbands being called to the service. Surely they should not be made the victims of a joint income-tax return because of their patriotism in accepting the burden of protecting their family.

When you consider the great difference this provision would make to husband and wife whose joint income is absolutely necessary for the proper maintenance of the family no fair-minded person can justify it. It would be just as logical to penalize brother and sister living together whose joint income provides the family maintenance.

Mr. Chairman, I sincerely hope that we will adopt this amendment and not penalize my sex because we happen to want to be married.

[Here the gavel fell.]

Mr. TREADWAY. Mr. Chairman, I yield 4 minutes to the gentleman from California [Mr. WELCH].

Mr. WELCH. Mr. Chairman, it has been intimated by some of the proponents of section 111—the mandatory joint income-tax provision in the bill now under consideration—that the opposition of California, through its representatives in Congress, to this provision is based on a monetary consideration.

Mr. Chairman, there is by far a higher principle involved in this section than the creation of an additional $323,000,000 in revenue. In my judgment, section 111 deals a severe blow at women's rights, by creating an inequality which prohibits a married woman living with her husband from filing a separate income-tax return.

California has been a community-property State since it was admitted into the Union on September 9, 1850. California granted full suffrage to women in 1911—at which time I was a Member of the State senate—and was one of the first of the 15 States that had granted women suffrage before the Federal amendment was adopted in 1919. California was one of the very first States to pass a widows and orphan's pension, and California was one of the first, if not the first to pass a women's minimum-wage law.

Mr. Chairman, California is proud of her long history granting to her women their rightful place in the social, economic, and political structure of that great State. Denying women the right to make separate return in their income tax is discriminatory, and a backward step, and takes from them advantages they have fought for down through the years, and justly won.

My friends, may I say in a spirit of good will, do not turn the clock back by writing section 111 into this bill.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield 5 minutes to the gentleman from Indiana [Mr. BOEHNE].

Mr. BOEHNE. Mr. Chairman, this morning there appeared on the desk of every Member of Congress a 6-page

brochure giving 20 reasons for opposing mandatory joint income-tax returns by a committee of six Representatives, self-appointed or otherwise.

This committee indicates that public indignation is high against this proposal. I would substitute the word "private" indignation for "public" indignation. It is true that the pressure on members of the Ways and Means Committee to eliminate this proposal has been terrific, but it has been directed by that handful of people who, for many years, have had an advantage which millions of other people have not had, an advantage that means dollars and cents to their already swollen pockets. Every one of us knows that when an advantage is taken away the squeal becomes more shrill, and it is liable to drown out the groans of those who have not been as fortunate in material goods. Those squeals then become sirens of indignation here in Congress.

The committee also states that the increase in taxes imposed by this joint return will have the same effect upon family budgets as heavy wage and salary cuts, but the committee fails to indicate that these wage and salary cuts have been in existence for these many years, where the husband was the sole breadwinner of the family.

On page 2 of the circular letter this question is asked:

Is a tax, which is unfair and unjust, less so merely because it is limited to the families whose incomes are over $333 per month?

The answer is, of course, "No," but the question of ability to pay is the decisive factor in the consideration of this proposal. At the same time we are confronted by that bugaboo that these families are bound to be included in subsequent tax legislation. That is the rankest type of subterfuge, because those who signed that statement know full well that one Congress cannot legislate for another Congress and that if each Member of Congress will do his duty he will view situations as they are and not how they might be.

Then we are given the shop-worn argument that this proposal constitutes a penalty upon marriage and a premium upon divorce. This, of course, is the argument of those clerics who not having found, or having found, being afraid, to place their protestations upon economic grounds, reach into the sphere of religion and church in order to convince those whose job it is to legislate on a tax bill. I merely repeat what I said the other day that if a husband and wife seek sanctuary in the divorce courts of our country because of the imposition of any tax, or if couples who would be contemplating marriage might decide that the financial cost is too great, and this might lead to a state of association which would not be wholesome, then I insist, marriage vows mean nothing to them. This argument is sheer nonsense. We are likewise told, and now I am quoting from the brochure:

In the United States divorce apparently is not looked upon with the same disfavor as in England and some other countries.

What a pitiful indictment against the morality of the American people. What a field this presents for all churches in general to work in. What a shame and disgrace it is upon the institution of the family, which many churches have been telling us are the very cornerstones of society.

It seems that much has been said about the rights of women being endangered by this proposal. To me that is not an argument, but it might be classed as political pap. This proposal does not invade the rights of a married woman; it treats her exactly in the same manner as her husband for Federal tax purposes. It merely regards the family as the taxable unit instead of the individuals who make it up. It does not, as the brochure states, abrogate the right of women to complete and separate control of the income from their property. It will, however, make that income subject to taxation in the proper way, namely, through the family budget.

Finally, we are confronted with the argument that the Supreme Court would very likely hold this proposal to be unconstitutional. I have never subscribed to the theory that we should forget the Constitution when laws are being written. After all, when that document is misinterpreted, and the laws under it misdirected, there is no reason on earth for us to continue our republican form of government. It is interesting to know, however, that a very distinguished Member of Congress, who is a constitutional lawyer in his own right, said privately the other day that after having read the argument on the constitutionality of this proposal in the committee report, he was convinced beyond a shadow of a doubt that this proposal came completely within the Constitution of the United States.

The last thing that I want to remind you is that this proposal seeks to place everyone on an equality, so that every man and woman be required to pay their proper share of the income taxes of this country, that the 94.23 percent of the American people may be placed on the same plane, which the 5.77 percent of the American people have been enjoying. The problem is now placed in your hands. If this proposal should be defeated, it will simply mean that we will have to add three hundred millions of dollars on the 94 percent of the American people who are groaning under the burden that they are now carrying. As long as this inequity exists I do not want to be a party to raising income taxes to even higher levels on those least able to pay.

[Here the gavel fell.]

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from Oregon [Mr. ANGELL].

Mr. ANGELL. Mr. Chairman, I ask unanimous consent to revise and extend my remarks at this point in the RECORD.

The CHAIRMAN. Without objection, it is so ordered.

There was no objection.

UNCLE SAM DRAFTS $13,000,000,000 TAX FOR HEMISPHERE DEFENSE

Mr. ANGELL. Mr. Chairman, by this tax bill Uncle Sam is drafting $13,000,000,000 for hemisphere defense, the greatest number of tax dollars ever demanded of the American people in our history. We cannot provide for all-out national defense without taxing the people to pay for it. The Federal Government has only two sources of income, taxes and borrowing, and money borrowed must eventually be paid from tax dollars, unless we resort to inflation or repudiation. With a tax debt of one hundred billions staring us in the face, every loyal American citizen owes it to his country to do everything within his power to avoid the catastrophe which will overtake America if inflation or repudiation is resorted to.

GAG RULE UN-AMERICAN

Mr. Chairman, I voted against the rule which made this tax bill, H. R. 5417, in order. It is a gag rule. I did this for two reasons: First, as a matter of principle, I am opposed to gag rules; secondly, I am opposed to the rule because it will deny me and every other Representative from calling up the inequitable provisions in the bill, of which there are many, discussing their merits and demerits and having the right to vote for their elimination, and giving the majority the right to rule. By its terms it prohibits the representatives of the people—Members of Congress—from taking any part in the determination of what taxes shall be included in this bill. Under it we are mere rubber stamps. We are restricted to the sole power of voting the bill up or down. This is un-American and should not be tolerated. Under this bill the members of the Ways and Means Committee are the only Representatives in the House who are accorded the right to determine what taxes shall be levied by the bill. It is not only government by a minority but by a select group of 25 members. This, too, is un-American and not in accordance with sound principles of a representative form of government, such as we are supposed to have. I have great respect and admiration for the members of the Ways and Means Committee. But I have a responsibility to the people of my district.

Mr. Chairman, I have received hundreds of letters and telegrams from constituents in my district opposing various provisions of this tax bill, but under this procedure I am powerless as their Representative in the Congress to have a voice in determining whether these features shall remain in the bill or be stricken out. I am even denied the right to make a motion to eliminate an objectionable tax. I must take the bill or leave it as it is dished up to me by the 25 gentlemen constituting the Ways and Means Committee.

TAX ON MARRIAGE—MANDATORY JOINT RETURN BY HUSBAND AND WIFE UNSOUND

By reason of the great pressure exerted upon the committee, it did yield on one point to avoid defeat of the rule and changed the rule to permit a separate vote on the obnoxious feature of requiring a joint return for a married couple living together. I am opposed to this provision of the bill and urge my colleagues to vote to eliminate it from the bill. The unfairness of this star chamber gag-rule procedure is shown by the attempt to penalize marriage by requiring joint returns. No women or women's organizations were heard by the committee on this proposal, yet 110 representatives of the tobacco industry

were heard on the tobacco tax. Heretofore American lawmakers have looked with tender solicitude upon the American family and the marriage compact. We have framed our laws to protect the family and encourage marriage and minimize divorces and keep the family circle intact. Down through our history women and women's organizations have struggled to free women from the ancient concepts which placed women in subjection to men in social, economic, and political life. America has freed women. American women have been given the right to vote, hold public office, own their separate property, retain their citizenship even though married to aliens, and to have equality of employment. By this law we propose to take the first backward step and penalize the woman who marries. We are now seeking by this law to discourage marriage, to offer inducements to husbands and wives to live apart. Is it sound public policy to frame our laws on such a basis? Rather should we not soften the tax burden on those who marry and maintain homes and rear their children with father and mother under one roof? While it is true we do not condone divorces for financial reasons, neither do we condone theft, but we do not pass laws to encourage either. Is it sound public policy to tax married couples less if they live apart and break up the home? This provision visiting upon a man and woman because they have entered into the marriage relation and are living together, a tax much larger than that imposed upon married couples living apart or other units of our population living together under similar conditions, is unsound. It is not only a deterrent against the consummation of the marriage contract but will result in disturbing the status of marriage as an American institution. We know in a good many of the countries of the Old World the marriage relation is being relegated to the past. In America the family is the foundation stone of our social structure, and anything that tends to weaken it should be discarded.

Leaving aside, however, the moral and social issue, it is an unjust discrimination on taxpayers who are married and living together. There is no sound reason, in my judgment, why the tax burden should be increased on two people who happen to be married and living under the same roof, while others, such as a father and children, who live together with the same responsibilities but unmarried, may escape the added burden.

My information is that, while about 80 percent of the families of the United States earned less than $2,000 a year in 1935, about 15,000,000 families earned from $1,250 to $5,000 a year. By forcing even the small incidental earnings of women into a joint return, the incomes of millions of American families in the low-income brackets will exceed the $2,000 exemption allowed for husband and wife and $400 for each dependent, and will subject them to an income tax, although their combined incomes are barely sufficient to maintain the family. They already are heavily taxed by indirect and hidden taxes on the necessities of life, which consume their entire pay check. Even this added burden might be justified as a matter of national defense if all citizens similarly situated were equally taxed, but this tax will only fall on those who are married and living together, and not on the others in the same circumstances and with the same income.

Mr. Chairman, my concern is not for income taxpayers who fall within the larger brackets and who will pay a larger tax by reason of this provision, they are well able to protect themselves, but I am concerned with the imposition of a larger tax on the large group of American citizens whose net incomes are small and who are married and living together, and particularly the women, and not taxing others similiarly situated except for the marriage status. It is entirely in keeping with equity to tax this group if all others similarly situated are taxed, but it is unfair to tax this group merely because they are married and to leave untaxed large groups of our citizens who are similarly situated and have like incomes but are unmarried, or, if married, are not living with their spouses. This proposed law penalizes our citizens for entering into the marriage relation, or penalizes a married couple for living together. Furthermore, it places an unjust discrimination upon women who marry and live with their husbands. There is no sound reason why the rights of women built up through the years should now be overthrown and a penalty placed upon the right of married women to own their own property by imposing a tax, if they marry, in excess of that paid by others who refrain from marrying. Any law which erects a barrier in the way of marriages is against public policy. It also places a premium on divorces and marital separations. The enactment of this law seeks to place an annual tax of $329,000,000 a year upon the institution of marriage. Two hundred and seventy-five million would come from non-community-property States. Why penalize the people of these States in an attempt to reach taxpayers in community-property States? Equitable tax laws can be enacted to reach taxpayers in community-property States to correct any inequalities now existing.

Mr. Chairman, I am not opposed to the provision making mandatory the filing of a joint return by a married couple living together by reason of any special condition existing in my own State of Oregon. In 1938 the total number of individual income-tax returns filed in Oregon was 53,584, of which 1,609 only received a possible tax advantage by filing separate returns. This leaves 51,975 who received no such advantage. There were only 3 percent receiving advantage against 97 percent receiving none. Furthermore, my State is not a community-property State. My opposition is based on the more fundamental ground that the law is not only inequitable, unjust, and discriminatory upon a portion of our taxpayers, but it is against sound public policy and is unsound from a social and moral standpoint, depriving women particularly, through discrimination, of rights to which they are entitled. There is no sound reason why women who are married and living with their husbands should pay larger taxes than married women living apart from their husbands, or unmarried women who receive the same income.

There is serious doubt, at least, as to the constitutionality of the joint-return mandate. Time will not permit its discussion here. I do call attention to *Hoeper* v. *Tax Commission* (284 U. S. 206), where the Supreme Court said:

> Since then, in law and in fact, the wife's income is in the fullest degree her separate property and in no sense that of her husband, the question presented is whether the State has power by an income-tax law to measure his tax, not by his own income but, in part, by that of another. To the problem thus stated, what was said in *Knowlton* v. *Moore* (178 U. S. 41, 77) is apposite:
>
> "It may be doubted by some, aside from express constitutional restrictions, whether the taxation by Congress of the property of one person, accompanied with an arbitrary provision that the rate of tax shall be fixed with reference to the sum of the property of another, thus bringing about the profound inequality which we have noticed, would not transcend the limitations arising from those fundamental conceptions of free government which underlie all constitutional systems."
>
> We have no doubt that, because of the fundamental conceptions which underlie our system, any attempt by a State to measure the tax on one person's property or income by reference to the property or income of another is contrary to due process of law as guaranteed by the fourteenth amendment. That which is not in fact the taxpayer's income cannot be made such by calling it income.

AMERICAN PRODUCTION OF STRATEGIC MINERALS HIT

Mr. Chairman, I understand that this bill eliminates the excess-profits tax exemption formerly accorded to producers of tungsten, quicksilver, manganese, platinum, antimony, chromite, and tin in the United States. These are strategic minerals which are necessary for the prosecution of our national defense. The supply is very limited and we have heretofore, by legislation, encouraged the producers of these strategic minerals to increase our production in the United States. By the elimination of this provision of our tax law, it will remove one of the most important incentives that our miners have for producing these strategic minerals in this national emergency. The production of these minerals in the United States is much more expensive than that in foreign countries where coolie and other cheap labor can be obtained and our local producers cannot successfully meet such competition. We should build up our own supplies of these essential raw materials so that in times of emergency, such as that facing us, we shall not be compelled to rely on foreign sources. We must have manganese in the manufacture of steel; we are equally dependent upon quicksilver and chromite. Quicksilver is an important ingredient in much of our defense equipment. In my own State of Oregon, the elimination of the excess-profits tax exemption for strategic-mineral producers will hinder the production of many thousands of dollars' worth of quicksilver alone. One producer recently said:

> If exemptions from excess-profits tax are eliminated, we will be compelled to change our policy in mining. We will not be interested in opening up any new properties or

in developing any new discoveries, or in doing additional outside exploration. The profits the Government might derive by cutting out the taxes is a mere bagatelle in comparison with the injury to the industry they are offending. It will have a depressing effect on the production of quicksilver.

Mr. Chairman, I trust that this provision of the tax bill will be stricken so it will permit the producers of these strategic materials to continue under the provisions of the law as it presently exists.

IS UNCLE SAM FACING BANKRUPTCY?

Mr. Chairman, the consideration of this tax bill must necessarily call up in review our whole fiscal policy. Those of us who have had to do with the problem of national defense and also the equally important problem of solving unemployment and putting our ship of state on an even keel are greatly concerned over the swelling national debt and our present necessity of greatly increasing it to provide for all-out national defense. We now see looming up ahead a national debt of $100,000,000,000, which will require in round numbers $3,000,000,000 a year in interest alone, without any provision for amortization. This interest charge is in excess of the total cost of government a few years back. It is now estimated that the expenditures for this coming fiscal year will be $22,000,000,000. Revenue from the present law is estimated to amount to nine billion four hundred million for the fiscal year 1942. The pending bill, if enacted as it now stands, will, according to estimates, raise an additional amount of $3,529,200,000 for a full year of operations, which, together with the revenues under the existing law, will aggregate substantially $13,000,000,000. This is equivalent to about 60 percent of the cost of government estimated for the year 1942, covering both normal and national-defense expenditures. We have already appropriated for emergency defense $43,000,000,000, and some additional seven billions are under contemplation. During the 10 years ending in 1932 the total United States Government expenses averaged less than four billions annually. Our concern is not so much over the cost of our national defense as it is over the fact that our ordinary expenses of government are now twice what they were a few years ago and are continuing to increase. We have been running wild down hill, without brakes, in the wildest orgy of public spending ever experienced in this country or any other country on earth. As one instance only, the Government departments used for franking in 1928, $6,000,000, and in 1940, $39,000,000, an increase of 650 percent. Similar extravagances are taking place in hundreds of bureaus and agencies. In the last 8 years we have spent as much as it cost to run the Government during the first 131 years of our history, which covers the time from the administration of George Washington through the administration of Woodrow Wilson, and including the World War. It is of interest to note the receipts and expenditures and the deficit for each of these years, as shown by the following table:

Fiscal record, 1934–41, inclusive[1]

	Expenditures	Receipts	Deficits	Public debt
Fiscal year—				
1934	$6,011,000,000	$3,116,000,000	$2,895,000,000	27,053,000,000
1935	7,010,000,000	3,800,000,000	3,210,000,000	28,701,000,000
1936	8,666,000,000	4,116,000,000	4,550,000,000	33,778,090,000
1937	8,177,000,000	5,029,000,000	3,148,000,000	36,425,000,000
1938	7,230,000,000	5,855,000,000	1,384,000,000	37,165,000,000
1939	8,707,000,000	5,165,000,000	3,542,000,000	40,440,000,000
1940	8,998,000,000	5,387,000,000	3,611,000,000	42,938,000,000
1941	12,710,000,000	7,607,000,000	5,103,000,000	48,961,000,000
Total	67,518,000,000	40,075,000,000	27,443,000,000	

[1] Figures from 1934 through 1940 taken from the 1942 Budget. Figures for 1941 taken from Treasury press release of July 2, 1941.

It should be noted that of the sixty-seven and one-half billions expended during these years, only five billions represent extraordinary outlays for national defense, since the emergency program was begun last year. We have upped the debt limitation to sixty-five billions and it is certain that next year this limitation will have to be increased, probably to one-hundred billions before the defense program is completed, irrespective as to whether or not we join in the war as a belligerent.

All loyal American agree that we must proceed with full speed ahead, regardless of cost, with full defense for our own country. We know that it will of necessity increase the national debt. The purpose of this tax bill we are now considering is to secure as many tax dollars as possible as we proceed with the program to help in financing this immense task with which we are confronted.

Mr. Chairman, while we must appropriate and spend and tax and go in debt, to provide for national defense, we should not overlook the fact that the salvation of this country will depend upon our Government being able eventually to plug the holes in our Treasury so that the immense amount of funds now being wasted and recklessly spent can be stopped. The mere fact that the ordinary expenses of government are now twice what they were prior to this orgy of spending should convince us that we must curtail on useless governmental expenditures and eliminate overlapping bureaus and myriads of high-salaried employees. I still believe the philosophy of government announced by President Franklin D. Roosevelt March 10, 1933, in his message to the Congress, is sound advice, notwithstanding the administration proceeded to discard the program almost immediately upon its announcement. In this message the President said:

A like necessity exists with respect to the finances of the Government itself which requires equally courageous, frank, and prompt action.

For 3 long years the Federal Government has been on the road toward bankruptcy.

For the fiscal year 1931 the deficit was $462,000,000.

For the fiscal year 1932 it was $2,472,000,000.

For the fiscal year 1933 it will probably exceed $1,200,000,000.

For the fiscal year 1934, based on the appropriation bills passed by the last Congress and the estimated revenues, the deficit will probably exceed $1,000,000,000 unless immediate action is taken.

Thus we shall have piled up an accumulated deficit of $5,000,000,000.

With the utmost seriousness I point out to the Congress the profound effect of this fact upon our national economy. It has contributed to the recent collapse of our banking structure. It has accentuated the stagnation of the economic life of our people. It has added to the ranks of the unemployed. Our Government's house is not in order and, for many reasons, no effective action has been taken to restore it to order.

Upon the unimpaired credit of the United States Government rests the safety of deposits, the security of insurance policies, the activity of industrial enterprises, the value of our agricultural products, and the availability of employment. The credit of the United States Government definitely affects these fundamental human values. It, therefore, becomes our first concern to make secure the foundation. National recovery depends upon it.

Too often in recent history liberal governments have been wrecked on rocks of loose fiscal policy. We must avoid this danger.

The President was right when on October 19, 1932, he said:

The credit of the family depends chiefly upon whether that family is living within its income. And that is equally true of the Nation. If the Nation is living within its income, its credit is good.

If government lives beyond its income for a year or two, it can usually borrow temporarily at reasonable rates. But if, like a spendthrift, it throws discretion to the winds and is willing to make no sacrifice at all in spending; if it extends its taxing to the limit of the people's power to pay and continue to pile up deficits, then it is on the road to bankruptcy.

Mr. Chairman, if the President was so much disturbed and concerned over the soundness of our financial structure in 1933, as expressed in this message when we had an accumulated deficit of some $5,000,000,000, and a total annual Government expense of approximately $4,000,000,000, how much more should we today be aroused over an accumulated deficit of $50,000,000,000, with sixty-five billions in sight for the next year and leading toward a one-hundred-billion national debt, and a total expense for the fiscal year of 1942 alone of twenty-two billions. Governor Eccles sounded a warning we should heed when he said:

The avoidance of inflation is as essential for the preservation of our political and economic system as the defense effort itself.

We are heading directly into the storms of inflation. We of this generation are not paying the bills of this generation but are passing them along for future generations to pay or repudiate.

I join with my colleagues in urging that steps be taken immediately, as proposed by Secretary of the Treasury Morgenthau so that the ordinary expenses of the Government be curtailed and useless and expensive frills and bureaus be

abandoned. The Secretary said $1,000,000,000 could be saved in this field alone.

Evidence coming to our committees in the House and the disclosures made by individual Members who have examined into expenditures for our national-defense program clearly disclose that immense sums appropriated for national defense are being wasted. We owe it to American citizens whom we are compelling to sacrifice in order to provide tax dollars with which to meet the mounting expense of government and national defense, to see that every dollar expended brings to us a full dollar in value. Our colleague, the gentleman from Michigan [Mr. ENGEL], alone has uncovered the wasting of over $200,000,000 in the building of our cantonments costing some $800,000,000. The tax dollars are running like water down the rat holes of inefficiency, graft, and waste. As the President predicted in 1933, this "liberal Government is being wrecked on the rocks of loose fiscal policy."

TAXES PAID WITH SWEAT OF LABOR

Mr. Chairman, I am voting for this tax measure knowing full well it will place a heavy burden upon every American family in direct, indirect, or hidden taxes. I know, too, that taxes are paid by the sweat of every man who labors. I know, too, that many American families are without the necessities of life. I know, too, that 5,000,000 of our people are still unemployed. According to testimony given before the Ways and Means Committee by Mr. Alfred C. Frodel, there are at least 126 different indirect or hidden taxes on a single pair of shoes, as follows:

Nine taxes paid by the rancher;

Sixteen taxes paid by the transportation companies;

Twelve taxes paid by the findings producers;

Fifteen taxes paid by the packer;

Fourteen taxes paid by the tanner;

Fourteen taxes paid by the findings manufacturers (shoe laces, rubber heels, counters, etc.);

Fourteen taxes paid by the shoe manufacturer;

Sixteen taxes paid by the shoe wholesaler; and

Sixteen taxes paid by the shoe retailer.

So these 126 different taxes on your pair of shoes keep moving right down the line from the rancher who pays 9 different taxes, when finally your shoe retailer offers you a pair of shoes with 126 different taxes and you, as the purchaser of a pair of shoes, pay most of these taxes. Is this soaking the rich? If taxes were lower, your shoes would be cheaper or you would get a better pair of shoes.

The farmers, producers, processors, handlers, manufacturers, wholesalers, retailers, and your landlord pay your taxes to the tax collectors, then these taxes are shifted on or paid by you, the wage earners. How? Because these taxes are included in your rent bill and in the price of everything you buy.

Mr. Frodel shows that the following taxes are placed on the following necessities of life:

Seventy-eight different taxes on a quart of milk (the taxes just about represent the cream on a bottle of milk).

One hundred and forty-eight different taxes on overalls.

One hundred and ninety-one different taxes on a fence.

One hundred and forty-two different taxes on a plow.

One hundred and twenty-five different taxes on a new dress.

One hundred and five different taxes on a suit of clothes.

One hundred and sixty-two different taxes on a bottle of magnesia.

Seventy-one different taxes paid by manufacturers of drugs and allied industries.

One hundred and fifty-four different taxes on a cake of soap.

Two hundred and one different taxes on a gallon of gasoline (which tax equals a $10 bill to each living person).

Thus it is seen that the man who works pays the tax collector. Indeed, it is true that taxes are paid in the sweat of every man who labors. Research experts of the Northwestern National Life Insurance Co. have found that a man supporting a wife and two children, earning $80 a month, who does not own his own home, pays indirect or hidden taxes of approximately $10.29 a month, or $123.48 a year, made up as follows:

Eighty dollars monthly pay, less monthly hidden or indirect taxes of $10.29

[Even the person on relief pays taxes]

Item	Cost per month	Percent of taxes found in cost	Amount of tax in dollars
Food	$27	7.8	$2.11
Shelter	18	26.1	4.70
Clothing	9	9.5	.86
Fuel and light	6	9.7	.58
Transportation (streetcar)	4	11.2	.45
Recreation	2	10.3	.21
Insurance	2	3.5	.07
Sundries and miscellaneous	12	10.9	1.31
Total	80	12.9	10.29
Annually	960	12.9	123.48

Mr. Chairman, the whole tax structure now existing in the United States covering Federal, State and local taxation is so complicated, overlapping, and unscientific that the Congress should cause a complete study to be made of the entire framework of taxation and enact legislation that will provide for an equitable distribution of taxes based on the ability to pay, avoiding overlapping and duplication so far as possible, so as to provide ample revenues for the various units of government, without drying up the sources of tax revenue and wrecking our economy. With this end in view I have introduced H. R. 5196, and commend it to the consideration of my colleagues in connection with this whole tax problem. The power to tax is the power to destroy. Let us take heed lest we destroy our own democracy through reckless spending and waste.

A few years ago a survey showed two-thirds of our American families had on an average only $69 income per month to support an entire family. In 1913 only 8.2 percent of the total national income was required for Federal, State, and local taxes, and in 1939 it had increased to 28.8 percent and the per capita public debt has now increased to $369. The ever-increasing load of taxes is shown by the following table:

Government expenditures and national income, fiscal years 1913 and 1923–39

Year	National income in billions of dollars	Governmental expenditures		
		Amounts in millions of dollars	Percent of national income	
			All governmental expenditures	Federal	State and local
1913	35.4	2,919	8.2	2.0	6.3
1923	64.6	8,850	13.7	4.7	9.0
1924	69.3	9,395	13.6	4.1	9.5
1925	71.7	9,869	13.8	3.9	9.9
1926	75.3	10,113	13.4	3.7	9.7
1927	75.8	10,453	13.8	3.6	10.2
1928	77.2	10,972	14.2	3.6	10.6
1929	80.9	11,611	14.4	3.7	10.7
1930	75.9	11,943	15.7	4.2	11.6
1931	61.7	12,390	20.1	5.8	14.3
1932	47.2	13,129	27.8	9.4	18.4
1933	41.3	11,284	27.3	9.2	18.1
1934	46.6	13,604	29.2	12.8	16.4
1935	53.7	15,011	28.0	12.9	15.0
1936	61.0	17,009	27.9	14.1	13.8
1937	68.6	17,187	25.1	12.2	12.8
1938	68.0	17,050	25.1	11.1	14.0
1939	66.3	19,100	28.8	13.8	15.0

Our tax burden will continue to mount skyward. This tax bill is only a beginning.

Mr. Chairman, we must provide for national defense, and we must vote taxes to pay the bill. I believe the American people are willing to be taxed for national defense if the money is honestly expended for defending America and is not spent in prosecuting wars of intervention in foreign lands beyond the Americas.

KEEP TAX DOLLARS FIGHTING AT HOME

Mr. Chairman, the appropriations, authorization, and recommendations for national defense have now reached 50 billions of dollars. The American people have not complained of this expense for national defense of our own country and financial aid to Britain. The American people, however, are opposed to using their resources for our fighting in foreign wars. The great majority of the American people are opposed to the United States entering the war now raging overseas as a belligerent. A recent poll under the direction of President Hutchins, of Chicago University, showed 74.7 percent of our people opposing our entry into the war. By a ratio of 12 to 5 it showed our people believed the Congress and not the President should decide whether the United States should take action likely to start a shooting war. President Roosevelt himself promised the American people, October 23, 1940, in speaking in Philadelphia:

We are arming ourselves, not for any purposes of conquest or intervention in foreign disputes. I repeat that I stand on the platform of our party: "We will not participate in foreign wars, and we will not send our Army, naval, or air forces to fight in foreign lands outside of the Americas except in case of attack."

The President, in a message to the Congress July 10, 1940, solemnly told us:

That we are opposed to war is known not only to every American but to every government in the world. We will not use our arms in a war of aggression; we will not send our men to take part in European wars.

On October 30, 1940, in Boston, the President gave this further assurance to the American fathers and mothers:

> And while I am talking to you fathers and mothers, I give you one more assurance. I have said this before, but I shall say it again, and again, and again, your boys are not going to be sent into any foreign wars.

Relying upon the will of the American people and the solemn assurance of our President, we in the Congress voted these huge sums and are now voting for these billions of new taxes for national defense—not for intervention, not for foreign wars, not for sending "our men to take part in European wars," but solely for the defense of America.

Mr. Chairman, in common with my colleagues in the Congress, I want to see the Axis Powers defeated in their ruthless attempt to subjugate the Old World. I want to see aggression defeated and freedom enthroned. To that end we have given and are continuing to give all aid possible to Britain without engaging as a belligerent in the war. We must not forget, however, we have our own Western Hemisphere to defend. We must not do anything that will hinder us in keeping America first in all our efforts for national defense. We must keep faith with the American fathers and mothers and these American boys drafted into the service. Their President promised them that they would not be sent out in a war of intervention, that they would not be sent into any foreign war, that they would not be sent, in the Army, naval, and air forces, to fight in foreign lands outside the Americas, except in case of attack. We also promised them when they were drafted that they were called for training for 1 year only, at the expiration of which they would be permitted to return home to continue their schooling or to resume their various occupations. We must not break our word to them. Else their faith in the integrity of their Government they have been called to defend will be shattered. After their discharge, they will continue to be enrolled in the Reserves, subject to call by the President any time. Now, however, notwithstanding these pledges accepted by these men in uniform, in good faith, it is proposed to repudiate these solemn pledges and force these boys into unlimited service in the Regular Army. It is also proposed by a bill now pending in the Senate that notwithstanding the provisions of any other law, the President may—

> employ all members and units of the Army of the United States * * * in such manner and in such places, either within or beyond the limits of the Western Hemisphere, as he shall deem necessary in the interest of defense.

This will permit putting American troops in European battlefields, sending them to fight on foreign lands outside the Americas.

Mr. Chairman, the Congress has remained continuously in session since the war emergency arose. I favor it keeping in session until all danger of involvement in the war is over. The Congress alone has power to declare war and to raise and equip an army. If it becomes necessary to send our forces beyond the Americas the Congress can enact the legislation when the need arises. We should not provoke attack by sending them now in foreign lands unless we want to invite war.

If these bills become law the pledges made to these American boys by our President and the American people will be thrown out the window; they become scraps of paper, our solemn promises like the edicts of the dictators of the Old World, become empty words, only made to be broken. Let us shoot straight with these young Americans in uniforms so that they will not lose their respect for their Government. Let us continue to maintain here in America one Government that holds its word sacred and inviolate.

The soldiers are denied the right to express their own opinions on the program to retain them in the service after the expiration of the year of their enlistment, as promised by the existing law. However, one committee of a company at Fort Meade sent this message to a Senator:

> We believe that such forced reenlistment breaks faith with the people of the United States and the soldiers who have willingly given 1 year of their lives to their country. We gave up good positions in civilian life to serve our country 1 year.

The enlistments were staggered and the selectees will be mustered out in the same fashion. The approximately 600,000 draftees now in service entered the Army in this fashion:

November	13,806
December	5,521
January	73,633
February	90,238
March	153,159
April	123,207
May	56,896
June	79,522

We want to maintain our Army to its full strength and also keep faith with the draftees. If provision were made for voluntary reenlistment it is believed a sufficient number would remain in service to maintain the morale as well as the efficiency of the Army. If forced to remain against their will and in violation of the pledge made to them, the morale of the Army is bound to be placed in jeopardy.

General Marshall has already announced that the men 28 years of age and over should be released in any event. We have already lowered the draft age to 28 years. We can keep our Army up to full efficiency and also keep our pledge to the draftees.

Mr. Chairman, I am not willing to spend this tax money for intervention or for sending our boys overseas to fight in foreign lands beyond the Americas, or in any way to violate the solemn pledges made by our President and the Congress that our boys shall not be sent outside the Americas to fight in foreign wars except in case of attack.

I have faith in America; I know you, my colleagues, have a like faith in America. It is still the greatest country on earth. Any sacrifice we can make is not too much to preserve it. We must, one and all, be willing to tax ourselves, to work, to sacrifice, to fight, and, if necessary, offer our lives on the field of battle in the Americas to defend America. Notwithstanding its faults, America still offers more of liberty and hope than any of the nations of the world.

In these tragic days facing the world, with false prophets and propaganda abroad in our land, we must keep our feet on the ground and our eyes on the stars and, as did our fathers of old, with firm reliance on the protection of Divine Providence, renew our faith and devotion to our country and pledge anew our lives and our fortunes to the one end of defending and preserving our America against all foes, foreign and domestic.

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from New York [Mr. HANCOCK].

Mr. HANCOCK. Mr. Chairman, the provision making joint income-tax returns compulsory for man and wife is the only controversial item in the entire tax bill on which we are permitted to have a separate vote. In other respects we must swallow the bill whole, except for minor committee amendments, or have no tax bill at all.

The thoughtful people of this country are worried about the danger of financial collapse. We do not know how big a debt we may safely incur or how heavy a tax burden our people can carry, but we do know there are limits. Increased expenditures are essential if our armed defenses are to be made adequate and increased revenues must be obtained if national bankruptcy is to be avoided. In these critical times, waste, inefficiency, and graft in government and unconscionable profits and lack of cooperation on the part of industry and labor are little short of treason.

Much as I dislike many of the provisions of this bill, I feel I must vote for it. I cannot justify myself in voting for large national-defense appropriations and against the only bill of the session to raise at least a part of the funds required. I will vote for it in the hope that as a result of Senate amendments and conference many of its inequalities will be corrected.

The Ways and Means Committee has worked long and diligently on this arduous task. We owe them our gratitude and our sympathy for their labors. The unfairness of singling out such common business and household articles as business machines, electrical appliances, washing machines, refrigerators, luggage, photographic apparatus, and so forth, for substantial excise taxes, while tens of thousands of other articles no more essential are not taxed, must be apparent to our taxing authorities, and as our tax problem grows more acute, they must come closer to the conclusion that a moderate manufacturers' sales tax on everything except the simple necessities of life, with a high tax on luxuries, is the only fair and satisfactory solution. There will be less public resistance to a small tax on many articles than to a large tax on a few and it will produce far more revenue.

The proposed mandatory joint-income-tax return for husband and wife is the most indefensible provision in the bill.

Under it a man and woman with incomes of their own, earned or otherwise, will upon marriage be subjected to higher taxes than as single individuals, because for tax purposes they will be required to add their incomes together and pay the surtax rate on their combined incomes. Each spouse will have to pay the rate reached by adding the income of the other to his or her own. In tens of thousands of cases they will pay higher taxes and higher rates of tax than two crusty old bachelors living on inherited wealth, with no dependents whatever, whose combined income equals theirs. It is clearly a discriminatory provision against married couples and a penalty on matrimony. It cannot be justified.

In a social sense the family is a unit, but individual property rights are firmly established in this country. We have progressed a long way from the time when the husband owned his wife's property, income, and services, and in addition received a dowry upon marriage. The proposed provision is a long step backward.

The proponents of this obnoxious section say they are shooting at wealthy men who have turned over to their wives substantial amounts of income-bearing securities in order to obtain lower surtax rates. I have no doubt that has been done many times, but the men who did so paid large gift taxes for the privilege of dividing their incomes with their wives. If, in spite of that fact, the Ways and Means Committee wishes to tax the joint incomes in such cases, let them amend the law by providing that for income-tax purposes the income from gifts from one spouse to another must be treated as the income of the donor.

It is also pointed out that under the present law a married man earning the entire family income pays a larger tax than the combined taxes of a husband and wife whose aggregate personal incomes are the same as his. Such a man can file a joint return and if the disparity just mentioned is regarded as an injustice, I suggest that the exemption given in joint returns be increased and that it be reduced in individual returns whether filed by married or unmarried persons. Greater credit might also be given for earned income.

I am sure that the tax experts can work out a formula along these lines which will greatly increase revenue from income taxes without discriminating against married individuals.

The provision as it now stands is unfair, unwise, and contrary to the sound public policy of encouraging and promoting family life in America. It ought to be stricken from the bill.

[Here the gavel fell.]

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from New York [Mr. LEONARD W. HALL].

Mr. LEONARD W. HALL. Mr. Chairman, I urge the membership of the House to reject the mandatory joint-return proposal and to reject it by a decisive vote.

The debates on the subject in the last few days have not removed the charge that this proposed "wedding ring tax" is rank discrimination, and also fundamentally, thoroughly unsound.

My position is already known, and I shall simply highlight the inherent objections to the proposal. On July 17, when the matter was still before the Ways and Means Committee, I addressed a formal letter to Chairman DOUGHTON urging the elimination of the item. I argued then—and the debates here since have fortified my position—that the joint-return proposal has no proper place in our tax scheme.

1. IT WOULD BE A PENALTY TAX

Under the proposal a husband and wife would be required to file a joint return, and because the tax brackets are progressive, the commingling of the income of both spouses would subject them to a higher tax than they would pay if they were not married. Obviously, the fact of marriage here has the effect of forcing each spouse to pay a greater tax than if they were single individuals.

This proposal, then, takes advantage of the marriage status as a revenue source. And that is why, rightly enough, it has been called a tax on marriage. Without the marriage status the higher tax is absent; with it, it is present. Therefore it becomes a penalty tax.

2. IT WOULD PUT MARRIED PERSONS IN A CLASS APART

The penalty in this case springs from inequality. Either spouse while thoroughly independent of the other for every purpose of property ownership and management in most of our States, for Federal tax purposes would be put in a special, a new category. We will have a new income-tax class, the marriage income-tax class, or what not. Even income-tax statistical methods will have to be changed in order to conform to the new set-up. Surely no one will advance the idea that at the time the income-tax amendment was adopted we would ever develop the income-tax law to the point where, in order to gain additional revenue, we would set up the sort of fictitious status inherent in this proposal. If we can put husbands and wives in a special tax status, then we can, perhaps, also put common-type industries in special tax categories, and so forth.

3. IT WOULD STIMULATE THE STATES TO FOLLOW SUIT

Disagreeable as it may be to have the contemplation, we are now only at the threshold of greater and greater taxes. The prodigious sums being expended today will be progressively increased; and should, unhappily, we be forced into the present war, the burdens of expenditures and the taxes that would sustain them will mount to even more huge figures. It would be a bit naive to expect that in the general situation before us, State taxes will remain at their present levels. The pressure for additional revenue will be as well on the States, counties, and municipalities. New sources, new tax fields, will be searched out, and imaginatively so, too. I think it follows that the precedent established by Federal law, if the joint-return proposal is adopted, would be quickly availed of in many States, even though its adoption might force reappraisal of their present separate property-tax laws. The refusal of the new and easy dollar that would be available to the States under the joint-return proposal would come hard. Were the States to follow suit, some very unfortunate results might easily be expected. Obviously, too, here also would there be extensive litigation resulting, not to mention the condition of discrimination that would result where certain States adopted the joint return and others did not, giving to the latter the very attractive opportunity to invite new residents into their States, with their chambers of commerce beckoning new residents to "Come into our State; no tax on marriage."

4. IT WOULD PROVOKE EXTENSIVE ANTAGONISMS AND LITIGATION

I have found little doubt among my colleagues that if the joint-return proposal is enacted into law it will be bitterly assailed in the courts. There is certainly a strong possibility, if not probability, that the Supreme Court would hold the joint-return provision unconstitutional.

The committee is aware of the case of *Hoeper* v. *Tax Commission* (284 U. S. 206 (1931)), where the point involved was the legality of a Wisconsin tax statute which, as I see it, posed substantially the issue contained in the presently proposed joint income-tax-return proposal.

The Supreme Court held the Wisconsin statute unconstitutional, and the following is a short quotation from Mr. Justice Roberts, who delivered the opinion of the Court:

> We have no doubt that, because of the fundamental conceptions which underlie our system, any attempt by a State to measure the tax on one person's property or income by reference to the property or income of another is contrary to due process of law as guaranteed by the fourteenth amendment. That which is not in fact the taxpayer's income cannot be made such by calling it income.

In the case of *Helvering* v. *City Bank Co.* (296 U. S. 85) an analogous question was presented. The Supreme Court ratified the reasoning in the Hoeper case and said:

> There are, however, limits to the power of Congress to create a fictitious status under the guise of supposed necessity. Thus it has been held that an act creating a conclusive presumption that a gift made within 2 years prior to death was made by the donor in contemplation of death, and requiring the value of the gift to be included in computing the estate of the decedent subject to transfer tax, is so grossly unreasonable as to violate the due process clause of the fifth amendment. In the same category falls a statute seeking to tax the separate income of a wife as income of her husband.

Surely there is the reasoning here by the Supreme Court that a State may not gage a tax on one spouse by adding to it the income of the other. Here is an index of how a Federal law to the same import would be viewed:

The Ways and Means Committee had available to it, I know, expert counsel on the question of the legality of the joint-return proposal and is aware of the many other cases bearing on the question. But I submit that there is no certainty that the Supreme Court would sustain the provision. To legislate the provision in the light of its possible unconstitutionality, in the face of the harassments and antagonisms it will provoke, and without any real confidence that the Government

will in the end get the three-hundred-million-odd-dollar revenue expected, would to my mind be most injudicious.

5. IT IS HOSTILE TO OUR DEMOCRATIC CONCEPTS

In the Hoeper case, referred to, Justice Roberts found that under the laws of the State of Wisconsin—and they are substantially the same in many, many other States—women have the same rights as men in the exercise of suffrage, freedom of contract, choice of residence for voting purposes, jury service, holding office, holding and conveying property, care and custody of children, and in all other respects; that the wife's real estate and its rents, issues, and profits are her sole and separate property as if she were unmarried and are not subject to the disposal of her husband; and that the individual earnings of every married woman are her separate property and are not subject to his control or liable for his debts.

And the Court said:

It may be doubted by some, aside from express constitutional restrictions, whether the taxation by Congress of the property of one person, accompanied with an arbitrary provision that the rate of tax shall be fixed with reference to the sum of the property of another, thus bringing about the profound inequality which we have noticed, would not transcend the limitations arising from those fundamental conceptions of free government which underlie all constitutional systems.

We have no doubt that, because of the fundmental conceptions which underlie our system, any attempt by a State to measure the tax on one person's property or income by reference to the property or income of another is contrary to due process of law as guaranteed by the fourteenth amendment. That which is not in fact the taxpayer's income cannot be made such by calling it income.

The progress, the benefits, mentioned by Mr. Justice Roberts, are part of our growth as a Nation.

They are part, really, of our system, of our free government, of our democratic philosophy.

The joint-return proposal, no matter what the legalistic answer to its correctness, is thoroughly repugnant to our system. It is strained, unnatural, and thoroughly out of keeping with the intent of the income-tax policy.

Were I to seek to summarize my entire view of the proposal in one word, I would characterize it as simply unjust. That tells the whole story.

No open hearings were held by the Ways and Means Committee on the proposal. Neither the people nor the tax authorities of the various States had any opportunity of representing their views, to state the effects and repercussions it might have on their own personal situations or systems.

I feel that the Ways and Means Committee may feel it was driven to the joint return because of the inexorable necessity of finding revenue for the defense program. I cannot believe but that it would have been glad to find another tax source. It is appreciated that the committee has been most painstaking in its study of the general tax proposal. Personally, I am keenly conscious of the tremendous labors it spent on the subject; and while people generally may not appreciate this, it is, nevertheless, a fact that we all know here.

As I have pointed out, I am convinced that this item should be stricken, and I realize that, if this is done, the Ways and Means Committee will have to resume its struggle to find the needed $300,000,000. But the implications of the proposal are so serious, so broad, as thoroughly to justify this request. In any event, deferment of the item would be indicated until such future time that the committee is in a position to invite public expression of views.

Taxes, when once legislated, are rarely lifted or softened. The joint-return proposal, however, is not simply a tax. It is a radical departure in policy; it would create a new principle in taxation; it would establish a new tax class. It is vitally essential that the principles underlying our tax structure be correct and just. If we set into our tax structure this stone of the joint return, I am afraid—unless the Supreme Court voids the law—that it will be long years before it is taken out. And antagonisms and consequences will be brought into play that will be with us for a long time.

Mr. TREADWAY. Mr. Chairman, I yield 6 minutes to the gentlewoman from Ohio [Mrs. BOLTON].

Mrs. BOLTON. Mr. Chairman, I take advantage of this opportunity to speak for a moment in the matter of my own and what I am sure is other Members' appreciation of the work which the Ways and Means Committee has done in its long preparation of this tax bill. It was a most arduous task and a rather thankless one, on the whole, because no matter what they bring us we are going to think it is wrong somewhere. Everybody is going to criticize both them and the Congress if we pass it, and, of course, we will pass it.

But I am particularly glad to have the opportunity to express my own appreciation of the work of these committee members and my own deep regard for the chairman. I know that you share with me for him a very warm affection.

I think the committee must have had a rather distressing time facing the realities of the situation today. It perhaps has brought home to them the tremendous expenditures that have been ours during the past few years, for the time has come when we have to pay the piper. We have to find a way to pay him. We have to dig deep into everybody's pocket. We have to find every conceivable way of getting money to make good these bills that we owe.

Those of us who sit on the minority side of the aisle have for many years tried to bring a little more sanity into expenditures. We are so glad that now you are going to want that sanity, too, and we hope it may make for great cooperation between the two sides of the aisle, that we may all use a great deal better judgment in what we appropriate and the way we control its expenditure. I congratulate you.

I take very seriously my responsibility here in the House, particularly toward the future, for, as you know, beyond everything else they have to do in the world women are concerned with the future. It is up to us to see to it that there are children, that they have education, that they are cared for, that we hold for them a world where they can live decently.

I am impersonal about it all because this section cannot affect me in any way. But because I feel very strongly on the subject I am supporting the amendment to eliminate the section from the bill. I am happy that it is being given an opportunity to eliminate itself, for it attacks the very fountain and root of American life, which is the family. We believe in the family. When other Members say this section does not jeopardize the family I beg to differ with them. England is held up to us at this juncture. If you go into the English experience you will note that over there they had to resort to taxing bachelors because marriage did not go so well with this sort of tax.

Many of you have been judges, many of you have perhaps sat in divorce courts and rendered judgment, many others of you have been lawyers in divorce cases. You cannot sidestep that whole side of this question quite as lightly, gentlemen, as you do. I assure you that it is very, very serious. Have you no realization of the gallantry with which the men and women of this country are keeping roofs over the heads of their children and trying to make them look and feel like homes? And do you think this is not going to be something in the nature of a last straw to a great many? I assure you you cannot sidestep this so lightly. Nor can you sidestep the problem that is immediately created in a time when traditions of every kind are being thrown on the ash heap. What are traditions worth today? Very little. God did not make marriage. He made men and women and man made the marriage tradition. As we are still men and women, are you so certain that marriage is going to be so safe? It seems to me a very serious thing for us to contemplate penalizing the great fundamental institution that makes us what we are, a great Nation.

I would ask you to think very seriously of these matters. Nor can you quite sidestep as lightly as other speakers have done the fact that it does take woman out of the place she has earned after many, many, long, long years. Mr. Chairman, in Ohio it was not until the last of the eighties that a woman had the right to her property. You are jeopardizing this right whether you see it or not. My regret is that some of you whom I love very deeply and whom I have admired for a great many years seem to have a blind spot in this regard. But I hope very much you will permit the clouds to roll away and the vision of the realities of human life to touch you and make you conscious that if we do not take this section out of this tax law we do jeopardize the homes of America.

Mr. DOUGHTON. Mr. Chairman, I yield 5 minutes to the gentleman from Oklahoma [Mr. DISNEY].

Mr. DISNEY. Mr. Chairman, pay day is at hand. This is pay day. Nobody likes pay day except those who are getting paid. Congress is called upon now to pay the bills it has incurred. It refused to cut

down nondefense items by a billion dollars, as the Treasury recommended, and is now confronted with the question: "Where are you going to get the money?" This item concerning joint returns by husband and wife involves $323,000,000, which about 95 percent of the taxpayers have carried for the other 5 percent. It is proposed by the amendment that the 95 percent still carry the load. That is the sole issue involved in this amendment, but an additional issue haunts you like Banquo's ghost, and it immediately presents itself, "To what source are you going to go for the money—you who have the power and the responsibility to take $323,000,000 out of this bill in favor of a small class and place the burden on the larger class?"

The trail inevitably leads back to page 17 of the committee report. If you will look at it, it means that a man with a $10,000 income shall pay $1,166 under the terms of this bill and the man and wife who splits it pay $880. Look at column A of this table and you will find that in order to take up the slack you will be compelled to put an annual tax of $1,628 on the man of the $10,000 income instead of $1,166. You have an opportunity to impose a greater load on 95 percent of the other taxpayers in order to perpetuate the 5 percent in enjoyment of a privileged tax status, or to forever put the ban of illegality on the now legal tax avoidance of millions in taxes by those most able to pay.

At the very last moment the President throws a pot shot into the whole procedure by a letter addressed to the chairman of the committee, and the House leadership is actively working, all dead set to defeat the bill itself. It is an onerous task to present a bill on the floor under these circumstances. Mr. Chairman, it looks like somebody sold the President a bill of goods. You will, of course, read the President's letter, and you ought, by all means, to read it, and to read the reply of the gentleman from North Carolina [Mr. DOUGHTON].

You will observe by reading the President's letter, with the letter from the Treasury, that the Treasury letter discusses only two subjects—mandatory joint returns and excess profits. The President's letter includes a third—lowering the exemptions and broadening the base. Since the real issue in dispute is mandatory joint returns by the husband and wife, evidently the inclusion in the President's letter of the other two subjects was not necessary, because the first subject, excess-profits taxes, has been repeatedly disposed of by the committee, and the Treasury itself opposed the broadening of the base and the lowering of the exemptions in unmistakable language on pages 56 and 57 of the hearings of this bill, at which point Assistant Secretary of the Treasury Sullivan very frankly and positively rejected the proposal, stating among other things, that married taxpayers making as little at $38.46 a week are required to file a return and unmarried taxpayers making $15.38 per week must file a tax return, under present law. I voted to broaden the base, but the matter is not an issue here in any form.

If you will look at pages 62, 63, and 64 of the report, you will find that in 1933 and 1934, Dr. Roswell McGill, representing the Treasury, recommended joint returns.

In 1937, the President submitted a letter from the Secretary of the Treasury which says, in part:

> Splitting income two ways, between husband and wife, reduces income taxes and leaves the family income intact.

Then about the community-property law:

> This is another major cause of revenue loss, which is unjustifiable because obtained at the expense of taxpayers in the 40 States which do not have community-property laws. A New York resident with a salary of $100,000 pays about $32,525 Federal income tax; a Californian with the same salary may cause one-half to be reported by his wife and the Federal income taxes payable by the two will be only $18,626. The total loss of revenue due to this unjustifiable discrimination against the residents of 40 States runs into the millions.

The President suggests that substantial relief should be granted to earned income of husband and wife. Chairman DOUGHTON's letter, to my mind, disposes of this issue in this language:

> I would be surprised if anyone would be in favor of penalizing the family in which the husband is the sole breadwinner in favor of the family where the wife also draws a salary, yet this is exactly what the Treasury qualification (suggested by the President) would have accomplished if we had permitted it to be incorporated in our bill.

Gifts, both tax paid and tax free, since 1932 have amounted to probably seven and one-half billion dollars. Many, probably most of these gifts, were family transfers, whereby husband and wife legally avoided surtaxes, and let the other people take the burden. The ratio is about 5 percent of the one and 95 percent of the other.

If the President and the House leadership had displayed as much interest and energy in cutting nondefense appropriations as the House leadership has displayed in defeating this proposal for joint returns between husband and wife, the cutting of a billion dollars from nondefense appropriations would have been automatic. It would have been done with no difficulty whatever; however, that was not done either by the President or by the House leadership. As a consequence, the nondefense expenditures go merrily on without a voice being raised either in the House organization or by the President toward rectifying the situation.

Since the bill has met up with such unexpected enemies, any Member is justified in forming his own judgment as to final vote on this bill as a whole. Mine will be a protest vote against such procedure and such indifference to the taxpayers as has been manifested.

Mr. TREADWAY. Mr. Chairman, I yield 2 minutes to the gentleman from California [Mr. LELAND M. FORD].

Mr. LELAND M. FORD. Mr. Chairman, I would like to make a few remarks in connection with the proposed joint income-tax returns under the new tax bill. I do this for the purpose of clearing the minds of some Congressmen, who may feel that certain States, particularly California, have recently adopted the community-property law in order to evade and avoid the income tax under the income-tax law. This is not true.

I would like to go into the historical development of this community-property law and show how it came into being in California, and also in the other States of the South and West. Certain sections of the United States, particularly the North and East, were developed and settled by the Anglo-Saxons, and, in the absence of other law, the English law applied. Certain other sections, namely, the South and West, were developed and settled by the Spanish, whose laws prevailed under the same conditions. The Southern and Western States of this country, particularly, including the States of Texas, New Mexico, Arizona, Nevada, California, Washington, and Idaho, have had the community-property law since the time of their respective admissions into the Union, and further than this, they have had it since the time of their original colonization.

This community-property law comes from Spain, where, before marriage, the woman, as to property, was on an equality with the man, and all property after marriage belonged one-half to the man and one-half to the woman. This law was in force in Mexico as a result of the Spanish settlement, and after Mexico revolted from Spain in 1822, the law still continued in force. Then, in California, in the year 1848, which was the time of the American occupation, and during the time that California was a republic, and following the Guadalupe Hidalgo Treaty of Peace in 1848, and ever since that time, everything acquired by husband and wife after marriage was and is community property, owned jointly by husband and wife, namely, one-half thereof owned by the wife and one-half thereof owned by the husband.

This law, emanating from Spain, originally was in outstanding contrast with the laws of England. Therefore, it may be seen that these States have not adopted any laws for the purpose of evasion of the income-tax law, but that the community-property law has been in vogue in California and these other States since they were admitted into the Union, and that that law has obtained from the time of their respective colonization. This law, in these States, is as much a part of their traditions and customs as the laws of the States having used as their basis the common law of England. It might be said that this law, in California and in these southern and western States, went with the land.

Were this joint income-tax return, as proposed, allowed to stand or allowed to be enacted, this House would be violating the elemental rights of husbands and wives as they existed at the time of the admission of California and these other States into the Union. To me, it means the encroachment of the Federal Government upon the laws of these States and it would have the effect of destroying their laws, together with the property rights of our people. These States were admitted into the Union, and accepted with these laws, and I think their laws

should be respected now, as they have been since each was admitted. Something might be said—but I am not going to great length on this point—as to the difference between the old Spanish grant water laws and riparian rights. There is just as much difference in these laws as there was in those other laws, and this difference is brought out by the granting of the waters of the Los Angeles River, at the dedication of the city of Los Angeles in 1763. It may now be seen that these States have not enacted any laws for the avoidance of taxes.

Both a man and a woman, even though married, are still individuals. One of the features of the income-tax law in general, and I believe it is so worded, refers to individual income-tax returns. If this is true, why then should either the man or the woman lose their individual identity and be discriminated against in that respect, and, as a matter of fact, lose part of their individual liberty under the Constitution of the United States?

How far can they go in this matter of making joint returns? Where will it stop? If a man and his wife can be forced to make a joint return, what assurance have we that if there are children in the family—sons and daughters with an earning capacity—that later on these may not be forced to join in and make a joint return? Then, too, if this could be done, what assurance have we that whole branches of families may not be forced to make joint returns? I believe this is unconstitutional, both with respect to this manner of forcing individuals to join together, and with respect to the destruction of our State laws, which have been the law of the land since the colonization of these respective States.

I believe that this certainly is discrimination against these individuals. Many of these individuals have separate property, obtained by inheritance or descent. That is entirely proper, and where this is the case these properties are so designated on our records as separate properties. Inasmuch as they are do you not think it is a violation of the laws of the land and the rights of the individual to say that they are joint, and that a joint return must be made?

This whole thing seems to me to bear much of the evidence of a "squeeze play," to squeeze more taxes out of the taxpayers, even though certain groups have to be discriminated against. I again say that I think this is unconstitutional and is an invasion of States' rights. If this is not discrimination, what, then, is it?

The statement has been made that if this is knocked out the surtax on other taxpayers will be raised. I see no reason for this, and further, I see no reason why every individual in the United States, regardless of what his income may be, should not pay his pro rata of the taxes. As things are now going, we have two classes of people in the United States, one which pays income taxes and one which does not. If this continues I think that practical observation will disclose that wherever a condition like this exists, there will be a constant clamor on the part of those who do not pay taxes to spend money and receive benefits and take it out of the hides of those who do pay taxes. I also believe that this is one of the reasons why many of the billions have been spent by this Government, as there is a demand by this group who do not pay taxes to get benefits from the persons who do. I believe if everybody in the United States paid taxes, everyone then would become tax-cost conscious. This would be a good thing for every unit of government, because then our people would be more careful, first, of the things they asked for, and secondly, as to how the money was spent, and it would thus encourage an interest in government that apparently, at this time, is not as keen as it ought to be. This interest certainly is necessary for the continuation of a republican form of government such as we have.

Under our laws all of our people are supposed to be equal, all voters are supposed to be equal, and all votes count, whether you are President of the United States or whether you are an indigent pauper. All people receive the benefit of the good things that our Government has and gives to them. If a republican form of government is to exist, then the people who receive these benefits have a duty, and that duty is to share in the responsibilities and liabilities of citizenship. I do not believe there is any question as to this.

The question has been raised as to where to get the additional three hundred and four millions that might be lost by reason of cutting out this joint-return item. No less an authority than the Secretary of the Treasury, Mr. Morgenthau, has publicly made the statement that a billion dollars could be cut from our expenses. Why is this not a good suggestion? Another answer to this query is, that if three hundred and four additional millions are needed, not to get it by the violation of the rights of these respective States and individuals, but to get it in a proper manner.

Another very important thing is, that it does put a penalty on the married or family state. This penalty might be manifested in two ways, first, in the feeling that people could not afford to marry on account of income-tax returns, and secondly, through the separation of families, through encouraging divorce in families where they found themselves no longer able to continue to pay taxes and live in the married state. I believe that this strikes fundamentally at our civilization and I think we might just as well meet this fairly and squarely, head on, and that we should not put any penalty on this family state. After all, it is the family that carries on, perpetuates the race, the state, and civilization. It is not the single state that does this. If we did not have the family state, one of two things would happen. The race would die out and the country would be lost; or you would do as they do in Russia, recognize illegitimate children or have children become the property of the state. I hope the Members of this Congress have not become so communistically minded that they would ever think of such procedure as a communistic marriage state, or that they would adopt the philosophy under the procedure of which children would become state children.

I hope, also, that this Congress will demonstrate that it cannot be dominated by the racketeering leadership of the C. I. O. in their demands for this joint-income tax. Of course, many of us who know the background, not of the men themselves, but of the communistic leadership dominating these men, expect this communistic leadership to come out and support the philosophy of communism, whereby the family would be destroyed. If family life can be destroyed in this country, then this is along the line of what is known as party-line procedure, and the subversive interests wishing this would be well pleased and they could write back to the leadership in foreign countries that they had done well.

Every real Democrat and every real Republican should assert himself and see that this encroachment of communism is stopped dead in its tracks, here and now.

One only has to read what has happened to family life in Russia if he wants to see what demoralization can take place. Therefore I urgently request this Congress not to place that penalty on the family state in this country, and not to go along with the philosophy of illegitimate, or state children. I would far rather see a premium attached to the family life, because I believe that with a sound family life, we will have a better civilization and a far better country.

Mr. TREADWAY. Mr. Chairman, I yield 5 minutes to the gentleman from Wisconsin [Mr. KEEFE].

Mr. KEEFE. Mr. Chairman, because the State of Wisconsin endeavored to incorporate in its law some years ago in substance the same provision that is sought to be incorporated in this bill, and because the Supreme Court of the United States invalidated that Wisconsin statute in the case of Hoeper against the Tax Commission, and because the committee in its report on page 22, in my opinion, very definitely misstates the decision of the United States Supreme Court, I have asked this opportunity to present just exactly what the United States Supreme Court said.

The committee in its report states:

> But even if the Hoeper case be taken at its face value, the provisions of the bill do not come within its scope. The motivating factor for the decision in that case was the provision that each person whose income was included within the tax computation was liable for the entire tax. It has been pointed out that the legislation here under consideration does not make the spouses jointly and severally liable for the entire tax unless they so elect. Each person is required to pay a tax only upon his own income and not upon the income of any other person. The net effect is merely that the amount of the tax which he is required to pay is conditioned by the fact that he lives in an economic unit which has other income accruing to it.
>
> For these reasons it is concluded that it is within the power of Congress to make the suggested changes in the Internal Revenue Code.

I submit that this conclusion of the committee is an unfair statement as to the reasons which motivated the Supreme Court to render the decision it did. Let me quote from the opinion of the Supreme Court, which I have before me. The Supreme Court set forth in great detail the status of married women in the State of Wisconsin, which is exactly the status of a single person. I do not have the time to go into it. It would be well to read the opinion of the Supreme Court. It follows with this language:

Since then in law and in fact the wife's income is in the fullest degree her separate property, and in no sense that of her husband, the question presented is whether the State has power by an income-tax law to measure his tax not by his own income but in part by that of another. That question, and that alone, is the question which was decided in the Hoeper case. This is what the court said in its determination:

We have no doubt that because of the fundamental conceptions which underlie our system any attempt by a State to measure the tax on one person's property or income by reference to the property or income of another, is contrary to due process of law as guaranteed by the fourteenth amendment. That which is in fact not the taxpayer's income cannot be made such by calling it income.

The entire decision, in my judgment, is determinative of the issue here. The decision by Justice Roberts follows:

Mr. Justice Roberts delivered the opinion of the court.

Appellant, a resident of Marathon County, Wis., married in the year 1927. Subsequent to his marriage he was in receipt of income taxable to him under the income-tax statute of the State. His wife, during the same period, received taxable income, composed of a salary, interest, and dividends, and a share of the profits of a partnership with which her husband had no connection. The assessor of incomes assessed against the appellant a tax computed on the combined total of his and his wife's incomes as shown by separate returns, treating the aggregate as his income. The amount so ascertained and assessed exceeded the sum of the taxes which would have been due had their taxable incomes been separately assessed. The authority for the assessor's procedure is found in the following sections of the act:

Section 71.05 (2) (d): " * * * In computing taxes and the amount of taxes payable by persons residing together as members of a family, the income of the wife and the income of each child under 18 years of age shall be added to that of the husband or father, or if he be not living, to that of the head of the family and assessed to him except as hereinafter provided. The taxes levied shall be payable by such husband or head of the family, but if not paid by him may be enforced against any person whose income is included within the tax computation."

Section 71.09 (4) (c): "Married persons living together as husband and wife may make separate returns or join in a single joint return. In either case the tax shall be computed on the combined average taxable income. The exemptions provided for in subsection (2) of section 71.05 shall be allowed but once and divided equally and the amount of tax due shall be paid by each in the proportion that the average income of each bears to the combined average income."

Appellant paid the tax under protest, and after complying with requisite conditions precedent, instituted proceedings to recover so much thereof as was in excess of the tax computed on his own separate income. He asserted that the statute as applied to him violates the fourteenth amendment. The Supreme Court of Wisconsin overruled this contention and affirmed a judgment for appellees. The question is whether the State law as interpreted and applied deprives the taxpayer of due process and of the equal protection of the law. The appellant says that what the State has done is to assess and collect from him a tax based in part upon the income received by his wife, and that such exaction is arbitrary and discriminatory, and consequently violative of the constitutional guaranties.

At common law the wife's property, owned at the date of marriage or in any manner acquired thereafter, is the property of her husband. Her earnings and income are his; he may dispose of them at will, and he is liable for her debts. Were the status of a married woman in Wisconsin that which she had at common law, the statutory attribution of her income to her husband for income tax would, no doubt, be justifiable. But her spouse's ownership and control of her property have been abolished by the laws of the State. Women are declared to have the same rights as men in the exercise of suffrage, freedom of contract, choice of residence for voting purposes, jury service, holding office, holding and conveying property, care and custody of children, and in all other respects Under the title "Property Rights of Married Women" it is enacted that a wife's real estate and its rents, issues, and profits shall be her sole and separate property as if she were unmarried, and shall not be subject to the disposal of her husband; and this is true of her personal property as well, whether owned at the date of marriage or subsequently acquired. She may convey, devise, or bequeath her property, real and personal, as if she were unmarried, and her husband has no right of disposal thereof, nor is it liable for his debts. Either spouse may convey his or her property to the other or create a lien thereon in favor of the other. The individual earnings of every married woman, except those accruing from labor performed for her husband, or in his employ or payable by him, are her separate property, and are not subject to his control or liable for his debts. She may sue in her own name and have all the remedies of an unmarried woman in regard to her separate property or business and to recover her earnings, and is liable to suit and to the rendition of a judgment, which may be enforced against her separate property as if she were unmarried.

Since, then, in law and in fact, the wife's income is in the fullest degree her separate property and in no sense that of her husband, the question presented is whether the state has power by an income-tax law to measure his tax, not by his own income but, in part, by that of another. To the problem thus stated, what was said in *Knowlton* v. *Moore* (178 U. S 41, 77) is apposite:

"It may be doubted by some, aside from express constitutional restrictions, whether the taxation by Congress of the property of one person, accompanied with an arbitrary provision that the rate of tax shall be fixed with reference to the sum of the property of another, thus bringing about the profound inequality which we have noticed, would not transcend the limitations arising from those fundamental conceptions of free government which underlie all constitutional systems."

We have no doubt that, because of the fundamental conceptions which underlie our system, any attempt by a State to measure the tax on one person's property or income by reference to the property or income of another is contrary to due process of law as guaranteed by the fourteenth amendment. That which is not in fact the taxpayer's income cannot be made such by calling it income. Compare *Nichols* v. *Coolidge* (274 U. S. 531, 540).

It is incorrect to say that the provision of the Wisconsin income-tax statute retains or reestablishes what was formerly an incident of the marriage relation. Wisconsin has not made the property of the wife that of her husband, nor has it made the income from her property the income of her husband. Nor has it established joint ownership. The effort to tax B for A's property or income does not make B the owner of that property or income, and whether the State has power to effect such a change of ownership in a particular case is wholly irrelevant when no such effort has been made. Under the law of Wisconsin the income of the wife does not at any moment or to any extent become the property of the husband. He never has any title to it, or controls any part of it. That income remains hers until the tax is paid, and what is left continues to be hers after that payment. The State merely levies a tax upon it. What Wisconsin has done is to tax as a joint income that which under its law is owned separately and thus to secure a higher tax than would be the sum of the taxes on the separate incomes.

The court below assigned two reasons which it thought removed the constitutional objections to the application of the statute in the instant case. It cited and followed the *Income Tax Cases* (148 Wis. 456; 134 N. W. 673; 135 N. W. 164), where the statute here in question was sustained on the ground that the provisions under attack are necessary to prevent frauds and evasions of the tax by married persons, and stated that the decision of this Court in *Schlesinger* v. *Wisconsin* (270 U. S. 230), was not inconsistent with the views expressed by the Supreme Court of Wisconsin in its earlier decision. To this we cannot agree. In the Schlesinger case this court held invalid a statute which, for purposes of inheritance tax, classified all gifts inter vivos, effective within 6 years of death, as gifts made in contemplation of death. To the argument of the necessity for such classification to prevent frauds and evasions, it was answered, page 240:

"That is to say, 'A' may be required to submit to an exactment forbidden by the Constitution if this seems necessary in order to enable the State readily to collect lawful charges against 'B.' Rights guaranteed by the Federal Constitution are not to be so lightly treated; they are superior to this supposed necessity. The State is forbidden to deny due process of law or the equal protection of the laws for any purpose whatsoever."

The claimed necessity cannot justify the otherwise unconstitutional exaction.

The second reason assigned as a justification for the imposition of the tax is that it is a regulation of marriage. It is said that the marital relation has always been a matter of concern to the state, and has properly been the subject of legislation which classified it as a distinct subject of regulation. It is suggested that a difference of treatment of married as compared with single persons in the amount of tax imposed may be due to the greater and different privileges enjoyed by the former, and, if so, the discrimination would have a reasonable basis, and constitute permissible classification. This view overlooks several important considerations. In the first place, as is pointed out above, the state has, except in its purely social aspects, taken from the marriage status all the elements which differentiate it from that of the single person. In property, business and economic relations they are the same. It can hardly be claimed that a mere difference in social relations so alters the taxable status of one receiving income as to justify a different measure for the tax.

Again, it is clear that the law is a revenue measure, and not one imposing regulatory taxes. It levies a tax on "every person residing within the State" and defines the word "person" as including "natural persons, fiduciaries, and corporations," and "corporations"

as including "corporations, joint-stock companies, associations, or comman-law trusts." It lays graduated taxes on the incomes of natural persons and corporations at different rates. It is comprehensive in its provisions regarding gross income and allowable deductions and exemptions, and is in most respects the analog of the Federal income tax acts in force since 1916. It is obvious that the act does not purport to regulate the status or relationships of any person, natural or artificial. Arbitrary and discriminatory provisions contained in it cannot be justified by calling them special regulations of the persons or relationships which are the object of the discrimination. The present case does not fall within the principle that where the legislature, in prohibiting a traffic or transaction as being against the policy of the State, makes a classification, reasonable in itself, its power so to do is not to be denied simply because some innocent article comes within the proscribed class. *Purity Extract Co.* v. *Lynch*, 226 U. S. 192, 204. Taxing one person for the property of another is a different matter There is no room for the suggestion that qua the appellant and those similarly situated the act is a reasonable regulation, rather than a tax law.

Neither of the reasons advanced in support of the validity of the statute as applied to the appellant justifies the resulting discrimination. The exaction is arbitrary and is a denial of due process.

The judgment must be reversed and the cause remanded for further proceedings not inconsistent with this opinion.

Reversed.

That is the decision and because of that decision I shall vote for the motion to strike this out of the bill.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield 3 minutes to the gentlewoman from Massachusetts [Mrs. ROGERS].

Mrs. ROGERS of Massachusetts. Mr. Chairman, it is very significant that the churches of all denominations, so far as I can find out, are opposed to the compulsory joint-income-tax return. This provision penalizes matrimony and gives a premium to divorce and separation as divorce settlements are approbated. Every woman with whom I have talked or of whom I have heard is opposed to this provision in the belief that it is a step backward insofar as the rights of women are concerned; that it penalizes matrimony and family life. Hitherto, tax laws in the United States have been designed to encourage matrimony and to protect family life.

I am going to point out, Mr. Chairman, a comparison of the present law and the hardship that will be worked under the proposed joint-income-tax return. Take a mechanic who has a wife and a minor child and earns $2,600. This income would all be exempt with the $2,000 exemption and the $200 earned-income credit. If the wife makes $800 this also would be exempt. If the junior or minor earned somehow or other $700 a year, this also would be exempt. Under the compusory joint return, the husband's position would be as follows: His $2,600 would be exempt because of the $2,000 exemption for married persons and the $200 earned-income credit, and the $400 exemption for minor dependents: But, under the joint-return provision, the wife's net income would no longer be tax-exempt but would be considered as a part of the husband's income for tax purposes; hence the husband would have to pay $132 income tax on his wife's income. Furthermore, the junior's $700 income would have to be included in the father's return, also adding $115.50 to the father's tax bill, a total of $247.

By including the compulsory joint return, the husband is subjected to a threeway increase in his tax burden; because:

(a) The proposed revenue law will abolish the present surtax exemption and require the payment of the surtax on all taxable income.

(b) By sharply increasing the surtax rate, with the result that even the lowest bracket of taxable income will be subject to a tax of 16.5 cents on every dollar—above the husband's exemption of $2,000 for himself and wife, plus $200 earned income credit, and $400 for each minor or dependent—as compared to a corresponding rate of 4.4 cents on each dollar of taxable income; and

(c) By greatly increasing the husband's taxable income through adding to his income that of the wife and minor children—no matter whether these incomes are derived from an inheritance left to the wife or child by the thrift and savings of her father or other relative—or whether she herself is helping to augment the family income to keep a son or daughter in school by taking summer boarders, raising chickens clerking in a store, or by sewing, washing, or cleaning.

As the proposed measure would bring 17,500,000 families—and not a mere 250,000, as has been claimed—under the joint income-tax provision, no less than 8,000,000 of whom never have paid any income taxes, and would not now but for the compulsory joint return, it is no wonder that this proposal arouses the indignation of husbands—heads of homes and families—who see in this joint income-tax return a direct move to penalize the efforts of wives who are working to help families to get out of debt, to educate their children, to pay hospital or doctor bills, or to pay for a home.

ONLY A SMALL PERCENTAGE OF THE HUSBANDS AFFECTED ARE IN THE CLASS EARNING $5,000 AND OVER

Out of the 17,500,000 husbands who will be affected by the compulsory joint return, the Statistical Abstract of the United States for 1940, published by the United States Bureau of the Census, shows that according to the latest figures, only 944,750 families in the United States had incomes of $5,000 or over in 1935–36. In other words, this group represents only 2.71 percent of the families in the United States at the present time—whereas the compulsory joint return would tax approximately 50 percent of all families in the United States.

Out of the 17,500,000 families who will be obliged to pay Federal income taxes under the proposed law, only 5 percent have incomes of $5,000 or more, while 95 percent of the families who will have to pay income taxes earn less than $5,000 a year.

Mr. TREADWAY. Mr. Chairman, I yield 6 minutes to the gentleman from Ohio [Mr. JENKINS].

Mr. JENKINS of Ohio. Mr. Chairman, one of my distinguished colleagues stated that five members of the Ways and Means Committee had filed with the committee's report a statement expressing their views against the provision requiring mandatory joint returns by husband and wife. Our colleague, the gentleman from Pennsylvania [Mr. JARRETT], was of the same opinion as those who signed and would have signed except for the fact that he had been called back to his home to attend a funeral when the report was being prepared. It seems that regardless of what approach one might take in presenting his views on this very important matter he is confronted with the fact that the principal argument in favor of mandatory joint returns is one based on the desire to secure additional revenue and on the one that because of the law in community-property States some inequalities exist. I have maintained in the committee and on the floor of this House that these two arguments really do not have a place in this controversy. To me it is no argument to say "we need the money." Neither is it an argument in opposition to the claim that the proposition is in violation of the Constitution to say that the measure should be passed because there are some inequalities between the laws of different States. My contention is that the proposal is in conflict with the Constitution and that the fact that there are some inequalities in favor of those who live in the eight community-property States does not answer this constitutional objection. There are many differences between the tax laws of the different States besides the differences in the community-property States. These differences should be corrected in a lawful manner. Taxation is not the lawful manner. If you cannot correct these inequalities by law, you surely cannot correct them by taxation. Let me repeat, if you cannot correct them by law, it is not right to attempt to correct them by taxation.

The gentleman from Massachusetts [Mr. TREADWAY] has had a bill before the Congress for several years attempting to correct these complaints that are made against community-property States. If this should be corrected, it ought to be corrected on its merits. We ought to take the matter up in the House sometime and take 2 or 3 days and thresh the proposition out and see if we can do something about it. I am not speaking today for the 8 community-property States, but, rather, I speak for the 40 States that do not have community-property laws. I like the law as it is for husband and wife have the option of filing single returns or joint returns, as they might wish. Not to be personal but my wife and I have always filed joint returns. The figures show that a very large majority of married couples have done the same. No doubt they will continue to do it.

I am in favor of this motion. For more than a hundred years it was impossible for Congress to levy a Federal income tax. It was necessary to amend the Constitution before this could be done. In 1913 the sixteenth amendment to the Constitution was adopted. There was a provision in the Constitution giving Congress the right to "lay and collect taxes," but Congress could not lay and

collect income taxes until the sixteenth amendment was adopted. One of my distinguished colleagues a few days ago made an argument to the effect that Congress had a right to classify taxes, and thereby do what is attempted in this bill, because Congress had the right "to lay and collect taxes." But as I have already pointed out Congress did not have the right to lay an income tax for more than a century after the Congress had been levying taxes under the provision of the Constitution that he mentioned. We cannot touch this proposition under the general provision of the Constitution to levy taxes.

What does the sixteenth amendment say? Let me read it to you:

> Congress shall have power to levy and collect taxes on incomes from whatever source derived.

From this it must inevitably follow that when Congress would pass laws making this amendment effective that these taxes should be levied according to the provisions of the Constitution requiring them to be levied in a general way and to be uniform in their application. That means that all persons earning the same incomes should pay the same tax. A single man earning the same as a single woman should pay the same. Likewise, a married woman and a married man should pay the same. A should pay the same as B, regardless of sex. A should pay the same as B, regardless of location, if they earned the same income. If A, a woman, and B, a man, are earning the same and decide to go into partnership, their incomes should remain their separate property and taxable separately. If they should marry and continue to earn the same amounts, or any amounts, their respective incomes should be their own property and taxable separately. We can pass a law permitting them to file joint returns, but we cannot compel them to do so and thereby increase both their taxes. The Supreme Court has decided that matter in the Wisconsin case, which is a case directly in point. That is the case of *Hoeper* v. *Tax Commission* (284 U. S. 206). This is a case directly in point and is the only case decided by the Supreme Court on this point, and this case has never been modified or reversed. One of our colleagues made the claim that Congress could, by way of classifying taxes, levy a different tax on lawyers and doctors, and so forth. But he surely would not contend that Congress could levy a different kind of income tax on lawyers and doctors. We have to levy the same tax on the same incomes, whoever earns those incomes.

The other day when I was discussing this subject I used a crude but convenient illustration. Let me use it again. I hold up my wide open hand. Here are five fingers. Let them represent five different persons—you do not know which are males or which are females, nor the age, nor color, nor residence of any of them. Each earns the same income. Each must pay the same income tax. Because Congress levies the tax on the income and not on the person. If two of these go into partnership with the incomes remaining the same they would still be liable for the tax for the tax is on the income and not on the person. And, likewise, if two of them should go into the partnership we call marriage with the same income, then they should pay the same tax as before because the tax is on the income and not on the persons nor on the new social relationship resulting from the marriage. If the Congress desires to grant exemptions to two people who assume the great and natural relationship of establishing a home it can do so. It can do so on the some principle that is employed in fixing rates. Congress can say that persons with an income of $10,000 should pay a tax of a certain amount. Likewise Congress can say that persons earning $10,000 shall pay a certain amount which is the same as all others earning that amount, but if they are married they shall be granted an exemption which must be the same to all married persons. But Congress cannot pass a law that in effect says that if A and B marry that A must pay a part of B's taxes.

Therefore, Mr. Chairman, my position is that the source of all of the powers of Congress to levy income taxes comes from the sixteenth amendment. And that Congress must levy these taxes on the income without regard to the social, physical, or marital relationship of the individual, and that when two people marry and continue to earn the same income they cannot be taxed more for entering into that relationship unless the income is increased. Congress has the power to levy income taxes on incomes but not on people. I hope we will adopt the amendment under consideration. The Ways and Means Committee by a vote of 15 to 10 put this provision in the bill. The matter was not thoroughly considered by the committee. I opposed it then for the same reasons I oppose it today. I think we will make a mistake to fly in the face of the positive decision of the Supreme Court rendered when the Court was free and unfettered. I think that justice as well as common sense would dictate such a course. I hope this amendment carries. [Applause.]

Mr. DOUGHTON. Mr. Chairman, I yield 6 minutes to the gentleman from California [Mr. VOORHIS].

Mr. VOORHIS of California. Mr. Chairman, so far as simple equity, fairness, and fact are concerned everybody knows that the income that is derived by a family unit, that is, a real family unit, is spent and enjoyed by that family unit as a whole. I cannot understand how this proposition can be understood as an attack upon the institution of community property, in which I believe most earnestly. As I said in the House the other day, I believe that at least half of everything possessed by a husband belongs to his wife; certainly, that is the way our family operates. I think that should be a matter of general law in the United States. But when it comes to a question of fair and just levying of necessary taxes by the Federal Government in a time when you have to get all the revenue you can get, and get it therefore in the fairest way you possibly can, it seems to me under circumstances of that kind that it is obviously unjust to favor people in the upper-income brackets who derive a tax advantage from the fact that they are married, and then impose a burden on people in the lower group of income receivers, which is what you are in all probability going to get if you do not keep this provision in the bill.

As the committee report states, no married couple with an income of less than $4,000 can possibly be affected by this provision, for the following reason: The married couple has an exemption of $2,000, and the first bracket of taxable surtax income is $2,000. Therefore, until the total income of that family gets above $4,000 it does not make any difference how a husband and wife make their return—the tax will be just the same.

As further proof that this is a situation that affects only the relatively well-to-do people, it is true that in the State of California, a community-property State, only 10.9 percent of all the returns in that State were separate returns, and all the rest were joint returns, for the obvious reason that to the 90 percent of the income-tax payers it did not make any difference. To only 10 percent of the people of our State who made income-tax returns—to only 57,000 people, to be exact, does this tax advantage from separate returns accrue. To protect that group's advantage it is, in effect, proposed by this amendment to place an additional burden on many times that number of much poorer folk.

What are you going to do? Are you going to say that the upper income-receiving people can divide their income around as they please, whether they are in a community-property State or whether they are not, and, as a result of their doing that, then vote to lower the exemption perhaps to $1,500 for married couples?

Someone has pointed to husbands and wives that are having something of a struggle to keep roofs over their children's heads and there are many such in our country. That is precisely what I am thinking about when I say this provision ought to stay in the bill instead of putting into the income-tax group those earning between $2,000 a year and $1,500 a year. People with $4,000 a year income may not always have an easy time but they are not the families that have no roofs.

The family has been referred to, as, of course, I knew it would be. All I have to say about that is that it seems to me that if it is necessary for us to give a tax advantage to people to induce them to get married, it is a pretty poor way to protect a family. My idea of the ties that bind a family together are very different from that.

One speaker the other day—I have forgotten who it was—gave some figures and showed how many dollars it would cost some young people to get married if each of them had a $10,000 income. If two young people are contemplating marriage and if they are going to figure out on a dollars-and-cents basis how much it is going to cost them to get married, and if that would discourage them, I believe

it would be wise for them not to enter into that great institution, in which I certainly believe because my own experience in it has been the happiest thing in all my life. Furthermore I doubt mighty seriously how much it will add to the number of little children in our country if a marriage does take place under circumstances of this kind.

I feel that if we were in a position where we could reduce taxes, if we were in a different kind of a period in our country's history, if we were talking about a reduction of taxes, there might be both wisdom and justice in imposing a community property arrangement throughout the whole United States. We are in precisely the opposite situation today.

Everybody knows that this provision for separate returns constitutes a tax loophole, and not only in community-property States. The fact that in a community-property State the husband and wife can divide their salary income, which is the only difference between community-property States and other States in this regard, accounts for a very small percentage of the tax leakage due to this situation. In the State of New York there were 53,000 separate returns filed against 57,000 in the State of California, almost the same number. Why is this true? It is true because the wealthy people in the State of New York divided their property between husband and wife regardless of whose it was, and that is, it seems to me, a partial answer to the constitutional question raised by the gentleman from Wisconsin. For if, as he suggests, you cannot by law cause income of one person to be associated with income of another person for tax purposes—then how can a law be justified that permits this very thing to be done for purposes of reducing taxes? In the State of New York and every other State in the Union a small percentage of the wealthier people are taking advantage of this privilege in order not to share the burden which in justice and equity they should share for the support of the United States today. And if they do assume it they can possibly save some of the taxes on the poorer people of the Nation who, as I showed from figures I gave the last time I spoke in the House, are up to this very good hour paying a larger percentage of their income in taxes—considering all sorts of taxes—than are some of the people who get incomes as high as $5,000 and $6,000 per year. I hope this amendment will not prevail.

[Here the gavel fell.]

Mr. TREADWAY. Mr. Chairman, I yield 5 minutes to the gentleman from California [Mr. GEARHART].

Mr. GEARHART. Mr. Chairman, I do not know whether I am violating any confidence or not, but after the hearings on this bill were closed and the members of the Ways and Means Committee were meeting in executive session, someone raised the question of how much more money we could get if we compelled husbands and wives to file joint returns. After carefully weighing the problem, an expert who was in attendance upon the committee and in whom the committee reposes great confidence ventured the opinion that a bill so drawn would yield approximately a gross of $287,200,000. Whereupon somebody made the motion, "I move we stand for joint returns," and, with but superficial consideration of the hardships it would impose, the motion was passed. Then from all over the country arose a storm of protest. In the face of this fast-developing opposition those who had voted for the motion did just what lawyers do who have taken a case—they set about thinking up arguments to justify the position they had taken.

The point I want to make is this. There was no adequate investigation of this question. Though hundreds of witnesses appeared before our committee during the time we were holding public hearings, no one of them seriously suggested that the committee make provision for mandatory joint returns by husbands and wives. Because so little was said during the course of the hearing no one realized the dangers that lay ahead. So nobody presented himself to our committee and no one was invited by the committee to discuss this momentous subject during the 4 long months we considered this bill. It was just decided upon and that was all there was to it. The arguments which you now hear in defense of the action the committee took are arguments which have been hastily devised by the members who voted for the motion in order to defend the position they had assumed. So in defending themselves after having taken action without adequate investigation, they are doing what all politicians and all lawyers who are in charge of litigation in court do. They looked for a scapegoat and they found that scapegoat in the community-property States, at least they thought they had found the thing with which they could arouse your prejudice in favor of retaining in the bill this iniquitous and ill-considered provision.

I now want to tell you people who come from States other than those in which the community-property system is in effect, that if you vote to retain this provision in the bill in order to compel those who live in community-property States to pay more taxes, you will be socking yourself right on the nose and will be hitting at those in the non-community-property States more than those living in the States at which this provision is directed. If anybody should want to bite off his own nose to spite his own face I know of no way that a resident of a noncommunity State could more effectively accomplish that end than to take his stand for compulsory joint returns by the members of the matrimonial partnership.

And I say that for this reason. This is going to raise $329,000,000, according to the revised estimate more than they would get if we continue to adhere to the present system, but I want to impress upon you that $275,000,000 of that $329,000,000 will be collected in the non-community-property States.

We are winding up the consideration of the 1941 and 1942 revenue bill, a bill which is supposed to produce $13,000,000,000. According to the estimates of experts the inclusion of the mandatory joint-return system will increase the community-property States tax responsibility $54,000,000, which is, after all, only four-tenths of 1 percent of the larger sum. So when our friends of the opposition say we ought to adopt this provision because we are going to make the people in the eight community-property States pay more, just bear in mind that they are talking about only four-tenths of 1 percent of the revenue that this year's bill will produce. They are making a mountain out of a molehill.

Then they tell you also that this is a provision only affecting the rich. Ah, I wish it were so easily disposed of. It is a principle that is involved here. It is the principle of compelling people to commingle their incomes for tax purposes. If you write that principle into the law and the courts hold it is constitutional, which I do not believe they will, you will have the principle on the statutes books to be expanded and extended. In the end you will find the exemptions will be lower, as the President has recommended and as the editorial writers are advocating, and then you are going to find that it is soon reaching down among the poorer people, because, after all, it is from the poorer people that we get the bulk of the revenue. When more revenue is needed—and another tax bill is already in the offing—the temptation to lower the bases will become increasingly alluring. If the emergency continues many months longer the move to lower the exemptions will become irresistible.

Do not let the camel stick his nose under the flap of our tent. Drive him from the threshhold while there is still time. Defeat this iniquitous proposal!

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield 5 minutes to the gentleman from Illinois [Mr. MCKEOUGH.]

Mr. MCKEOUGH. Mr. Chairman, there are just one or two features that have been touched upon in this debate so far that I think deserve some answer. The gentleman from California [Mr. GEARHART], who just preceded me, indicated there is a principle involved in this matter. With that conclusion I am in hearty accord. The principle involved is one of equity and justice for the benefit of 95 percent of the individual taxpayers of the country to correct an injustice accruing to the benefit of approximately 5 percent since 1913, when the original Federal income-tax law became the law of this land.

In passing may I remind the House that because there was no gift tax from 1913 to 1932, with the single exception of the year 1924, over $7,000,000,000 in income-producing securities were transferred by one spouse to another in order that they might avoid legally the payment of their just tax to their Federal Government. That is the practice we seek to correct, and I, therefore, do not share the conclusion of the gentleman from California, who now seeks to have compulsory joint returns removed from this tax bill and thus continue the present injustice.

One other argument that has been presented in the speeches, and one that is presented with an absence of logic or reason, but one that is constantly offered, is that compulsory joint returns will interfere with the sacred state of matrimony. Out of curiosity, I have looked up the vital statistics published by the Bureau of the Census for the eight community-property States that are making the attack on the work of the committee to determine what the divorce rate is in those individual States.

For the year 1932, which is the last that the Bureau of Publications was in a position to give, it shows that for the whole United States there were 163 divorces for every 1,000 marriages. For the State of Arizona there were 111; for the State of California, 327; for the State of Idaho, 528; for the State of Louisiana, 73; for the State of Nevada, 563; New Mexico, 78; Texas, 354; Washington, 215. Those are the 8 community-property States that want to strike out the compulsory joint return of husband and wife which the Ways and Means Committee included in this bill. The average of those States per 1,000 marriages was 281-plus divorces as against 163 for the entire United States for that year. These statistics most eloquently "explode" the false issue of divorce which has been raised by those who are opposed to compulsory joint returns. In passing may I state that for the year 1935 in England and Wales, where they have had compulsory joint returns for husband and wife for the past 19 years, there were only 12 divorces for each 1,000 marriages for that year. Of course we all know that California has what is known throughout the Nation as a very "hot spot." I think they call it Hollywood, which is one of the community-property States. Incidentally, California has 2 Members on the Committee on Ways and Means, 1 on the majority side and 1 on the minority side, and when they tell you that the community-property States, on the question of compulsory joint return for Federal income taxes, were not given attention by the committee, they are all too modest. In addition, the distinguished gentleman from Texas, another community-property State, who is also a member of the Ways and Means Committee and for whom I have a very high regard and affection [Mr. WEST], was most articulate and aggressive in the interest of the community-property States. That is the issue, the voters of the Nation want to correct a principle. Let us vote to keep the compulsory joint-return provision in the bill; let us have the joint returns and correct an inequity that has been in our Federal tax structure all too long.

Mr. TREADWAY. Mr. Chairman, I yield 7 minutes to the gentleman from New York [Mr. REED].

Mr. REED of New York. Mr. Chairman, this situation reminds me of an incident up in New York State, where a lawyer was defending a man of questionable conduct. Finally the judge leaned over and said to him, "Counsel, can you point out any provision of law that would warrant this court in discharging this man?" And the counsel replied promptly, "Yes, Your Honor, I can cite you to a chink in the common law that has been worn smooth by the scoundrels that have slipped through it." Mr. Chairman, for years a certain group in this country has been escaping their just proportion of taxes They have been enjoying all the privileges of a free government, not only because of no gift tax to pay, but because they could transfer their property and thus escape their burden of taxation. Remember at this time we are in what is called an emergency, and this is supposed to be the greatest of all the emergencies that we have had in the last few years. We are told that the clouds of war are hovering low, and that this Nation must hasten to prepare to defend itself, and the citizens of this country are called upon to sacrifice, to the end that we may preserve all that we hold dear under our Constitution and our free government. The President in his letter to the gentleman from North Carolina [Mr. DOUGHTON] said that everybody would be willing to chip in to meet this great emergency Is not this the time for these people who have been escaping a just burden of taxation to chip in, and not throw the whole burden on the rest of the people? I admit that I have received quite a few letters, and the headings of the letters were from some private yacht or from a castle or letters bearing a coat of arms, pointing out the injustice and saying that they would have to get a divorce if this joint return were kept in the bill. I say that is all folderol. As has been pointed out, England has had joint returns on her books for 20 years, and not only there are the divorces less, as pointed out by the gentleman from Illinois [Mr. MCKEOUGH] and as the records show, but yesterday I had a check-up to see about this terrible decrease in the birth rate that might occur. The birth rate in England in 1935 was over 7 points higher than it was in the United States. So, these claims are mere drivel. We better face the facts as they are.

When they say that this provision had no hearing in the committee, I point out that the Secretaries of the Treasury have been trying to stop this loophole, this escape from taxation, for years. The Ways and Means Committee had before it Mr. Leon Henderson, and I assume that he would not have spoken as he did unless it had the approval of the President. He was urging joint returns. The eloquent gentleman from California [Mr. VOORHIS] appeared before the committee and presented it, and the Secretary of the Treasury endorsed the principle of joint returns. Why should we now turn back, when there is an opportunity to correct this abuse, and especially in a time of great emergency? You must realize that we have right now a $50,000,000,000 defense item, and how are you going to meet it? Are you going to throw the entire load over onto the 94 percent and let these people escape as they have escaped for years? That is not just. That is not fair. That is not the American way. Not at all. I believe that this House, when you have thoroughly thought it out, certainly after you have read the hearings, where the arguments are unanswerable in favor of joint returns, keeping in mind that this bill right now will raise only $1,900,000,000 in the fiscal year 1942, $1,125,000,000 of which will go for paying interest on the national debt, what is there left for defense? It will take 2 full years of this bill to pay for what we are giving away to foreign nations, to say nothing about the appropriation bills that are coming up to pass out billions more to foreign nations. I think it is about time for this Congress to act and to act independently on this great question.

I am going to say one thing more: There is no man here who does not know that it is true. Within the last 3 days word has come down through this little fringe of tax dodgers, speaking through certain political organizations on both sides, "You will not get any contributions for your next campaign unless you wipe out this amendment." Gentlemen, let us be Americans today and not partisans. Let us vote for the United States of America and see that every person shares his full burden of this defense.

What does this mandatory joint return mean as reported in the proposed tax bill?

Answer. It requires husbands and wives living together to file a joint return if their aggregate gross income is $2,000 or over and to compute the tax on the aggregate income.

How is the liability fixed?

Answer. The liability for the tax may be joint and several or, at the election of either spouse, may be apportioned between them.

How is the apportionment of the tax liability made?

Answer. It is according to the ratio of the taxes which each spouse would have been required to pay had they filed separate returns.

What are the purposes of requiring mandatory joint returns by husband and wife?

Answer. (1) To prevent husbands and wives from transferring property between each other to escape taxation.

(2) To prevent husbands and wives, living in community-property States, from making separate returns to avoid their just burden of Federal taxation.

How does the law operate where mandatory joint returns are not required?

Answer. As an illustration, two families, each having the same income, viz: $10,000 a year; one family would pay $286 more than the other.

What effect will mandatory joint returns have on a family whose net income does not exceed $4,000?

Answer. There will be no increase in the tax. If there is one dependent the income would have to exceed $4,400 before the joint return will result in an increase in tax, and the net income would have to be increased by $400 for every additional dependent.

Have mandatory joint returns been tried elsewhere?

Answer. Great Britain has used mandatory joint returns for 20 years.

Have mandatory joint returns increased divorces in Great Britain?

Answer. Divorce rate in England and Wales in 1935 was 12 divorces for each 1,000 marriages; in the United States

during 1935 the divorces were 164 for each 1,000 marriages.

Do mandatory joint returns invade the rights of married women?

Answer. No; it treats the married woman exactly in the same manner as her husband for Federal tax purposes.

Do mandatory joint returns invade the married women's property rights?

Answer. Her property rights are in no way invaded.

Has the use of joint returns decreased the birth rate in England where the method of joint returns has been in operation for 20 years?

Answer. No; the birth rate in England in 1935 was 17.4 per 1,000; the birth rate in the United States in 1935 was 10.4 per 1,000.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield 1 minute to the gentleman from Oregon [Mr. PIERCE].

Mr. PIERCE. Mr. Chairman, I shall vote for the joint mandatory income-tax return. I cannot understand why we should waste 2 hours discussing this question. The only question I can see which should be taking our time and attention is the fight we should be making against the German war machine. The kind of income tax we vote is of little significance compared to the preservation of our Government and our economic system. It takes money to defeat that war machine, and it is the paramount issue before civilization today. The joint return will raise more money, taking it from those who have the ability to pay. I bitterly regret that this pending tax bill favors some who have the ability to pay and will escape just taxation, but that is no reason for further extending the inequities.

I have always favored legislation giving women entire independence and economic and political equality. I do not believe that a mandatory joint return will affect that status. Those who can contribute money to the great world cause today should rejoice in the ability to participate. Our young men are surrendering freedom of action. Why should others complain?

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield 2 minutes to the gentleman from Louisiana [Mr. BOGGS].

Mr. BOGGS. Mr. Chairman, were it not for the fundamental nature of this provision I would not presume to disagree with the distinguished committee which has spent so many hours and days and weeks bringing out a bill which is so necessary for the defense of our country. But I say the greatest misrepresentation that could have been made on this floor today is that those of us who come from the old line community-property States have brought about that system for the purpose of evading Federal taxation. Nothing could be further from the truth. Throughout the eighteenth century we had the community-property system. In 1803 when Louisiana became a part of this country we had the community-property system. In 1812 when we were admitted to the Union we had it, and we have had it since then. I think it is a liberal, progressive, and enlightened system, because it recognizes not only the sanctity of marriage but the sanctity of the component individuals who make up the union of marriage. The wife retains her separate property which she brings into the community and she lives as an integral part of the community through the marital relationship. This proposal strikes at the very roots of this system and for us is a return to medievalism.

[Here the gavel fell.]

Mr. TREADWAY. Mr. Chairman, I yield such time as he may desire to the gentleman from Kentucky [Mr. ROBSION].

Mr. ROBSION of Kentucky. Mr. Chairman, I ask unanimous consent to revise and extend my remarks at this point.

The CHAIRMAN. Without objection, it is so ordered.

There was no objection.

Mr. ROBSION of Kentucky. Mr. Chairman, I shall vote in favor of the motion of the gentleman from California to strike out section 111, providing for the mandatory joint income-tax return of husband and wife. Every Member of the House takes an oath to support the Constitution of the United States. I believe this provision in the tax bill before us, under the decisions of the Supreme Court, is unconstitutional. In my opinion, no Member of Congress should ever vote for a measure that he honestly believes is unconstitutional.

Furthermore, this provision is a backward step in our economic and social life. The home is the great foundation stone as many of us believe for our religious, social, political, and economic life. For more than a century the Nation and the several States have been enacting laws to bulwark and strengthen the homes of this country. Every State has enacted homestead and other exemptions in order to encourage and protect the homes and families of the Nation and the Federal Government and the States have provided exemptions in tax returns for the benefit of the families. Under the common law the wife was little more than a chattel. With certain limitations the husband could inflict corporeal punishment on the wife. He became the owner of her personal property, and in many instances controlled her real estate. On her marriage she gave up her separate or individual estate and property. The women of this Nation have made a long and successful fight to free themselves from such slavery, and the husband can no longer chastise his wife as he did under the common law, and in practically all of the States she owns and controls all of her property, both real and personal. The wife's property is no longer subject to the debts of her husband. She is now a voter and can seek and be elected to public office. This emancipation of the women of America is in keeping with the enlightenment of our twentieth century civilization.

Section 111, providing for mandatory joint returns of income for Federal taxes, violates all of these principles and is a throw-back for more than 100 years. Under this provision the wife is compelled to pool her income with that of her husband for the purpose of income taxes and likewise the husband is compelled to pool his income with the income of his wife. The purpose of this is to place the income under the higher brackets and to increase the taxes on the husband and wife. In other words, it would force them to pay a greater income than they would be required to pay if each one filed a return for his or her own income and it would make the wife liable for the taxes of the husband and the husband liable for the taxes of his wife and, of course, would destroy her right to her own individual property and income as provided in the laws of practically all of the States. In other words, this would place a penalty upon matrimony and the creation of a home by the husband and wife. It is in direct contravention with the policy that we have been building up in the Nation and the States for many years, that is, to encourage rather than discourage matrimony and the creation of homes. Congress and the States have always recognized that the man with a family, and his wife, because of their children and other obligations, have greater burdens to bear than the average single person. Section 111 places upon them greater burdens in the way of paying taxes on their income than is placed upon single persons with same income. I would not have you understand I favor the husband and the wife with incomes escaping their just proportion of taxes. They should pay their just and reasonable portion of taxes, but I do object to their being penalized because they have entered into this most desirable relationship and have brought forth children and are building homes and the Nation. We have no right to pass a law that will take a part of the income of one person to pay the taxes of another person, for this is not equal protection or equal justice under law and in my opinion is in direct violation of amendment No. 16 of the Constitution of the United States. This provision does not affect me or any member of my family personally. There is only one income in my family.

Section 111 should be stricken and the bill should be amended so as to make it constitutional and so as not to take away the rights of American women who have or may have incomes. American women have fought hard to secure their social, political, and economic freedom and I am unwilling to take any of these freedoms from them for taxes or any other purpose. This bill could be amended so as to require that the husband and wife pay their just share of taxes on their income as compared with other taxpayers of the Nation with like income. This could be done without taking away the just rights of married women and without violating the Constitution of the United States.

Mr. REES of Kansas. Mr. Chairman, I ask unanimous consent to revise and extend my remarks at this point.

The CHAIRMAN. Without objection, it is so ordered.

There was no objection.

Mr. REES of Kansas. Mr. Chairman, I believe the joint returns for husband and wife should remain in the bill. It should be understood this provision does not affect the income tax of any family

where the net joint earnings are as much as $4,000 or less. It does not materially increase the tax on incomes except where they net several thousand dollars per year.

As a matter of fact we are advised that less than 6 percent of the tax returns filed last year were separate reports. The other 94 were joint reports. In the State of Kansas, out of 30,000 returns filed, only 3.3 percent were filed separately. I mention this to show that only a few in the high-income brackets are affected. It certainly is a group upon which there will be no particular hardship, and who under these trying times, should be willing to contribute a little more to help carry the tax load.

Mr. Chairman, if this provision is taken out of the bill, it will mean a decrease in taxes on those who are able to pay, and don't forget it will likewise mean an increase of $330,000,000, that will have to be collected somewhere else. Furthermore, quite an amount of the added income is the result of the huge Government expenditures. I do think this section could well be amended to allow separate returns where it can be shown definitely that separate incomes are accrued or earned by the individual effort of the husband or wife, as the case may be. If we adopt this amendment, then they can divide their incomes in order to save the additional taxes.

Mr. Chairman, it seems rather strange the Rules Committee of the House would permit this section to be amended and not allow one of the other approximately 100 provisions of the bill go untouched. To say such method is unfair is putting it mild.

Mr. Chairman, if we are going to talk about inequalities, then examine the bill and you will find plenty of them. Of course, whether we like them or not, there is nothing we can do about them. Let me call your attention to one or two items on the point of inequality. This bill provides an extra flat tax on a yacht worth several thousand dollars, on every limousine with its private chauffeur, on every high-priced car, and $5 on every automobile of every kind and description, including the old or new car of every farmer, the laborer, and the car that is needed to carry the high-school boys and girls to and from schoool. And do not forget it will take thousands of additional inspectors and employees to see that the law is enforced. This bill makes every school boy and girl who is learning to play the violin or the flute in the school orchestra or the horn or the bass drum in the town band pay 10 percent extra on such instrument. These are only examples of many items in the bill. They are mentioned merely because so much has been said about the "inequity" of the provision in question.

Mr. Chairman, I do not believe for a minute the taxpayers in your State or my State, when they understand the situation, will complain because husbands and wives are asked to include their incomes on a joint return, when they understand it will not increase their taxes unless their joint net earnings are more than $4,000 a year. I am sure if you have had complaints about this matter they did not come from farmers, who are now bearing more than their share of the load, nor from the laboring man or the clerk in the store, or Mr. Average Citizen, as you and I know him. If you insist on this amendment, then be fair and let us go on down the line and examine the other provisions of the bill.

Mr. Chairman, I do not believe the comparatively few taxpayers whose taxes you choose to reduce this afternoon will, in view of the emergency and under the extraordinary circumstances, find fault with the payment of this tax.

Mr. Chairman, there are many features in this bill that do not suit me. But there is nothing I can do about them. I do trust that in view of the condition of the Federal Treasury, and considering the tremendous burden that is being imposed on our people, and considering that even more taxes will have to be raised to partially take care of the ever-mounting expenditures of our Government, I hope you will not knock out the provision in question and ask the already overtaxed citizens to make up the additional $330,000,000.

Mr. TREADWAY. Mr. Chairman, I yield 4 minutes to the gentleman from Massachusetts [Mr. GIFFORD].

Mr. GIFFORD. Mr. Chairman, I waited rather patiently for 3 days to discuss this issue. I cannot do it in 4 minutes.

I note that some people have been able to rise above principle and vote for this simply because it would bring extra taxes. Some seem to have admitted this. I cannot agree with that.

Would you not like to give your daughter money when she married and keep it entirely from her husband's knowledge if she desired? Under this bill she must disclose and merge it with her husband's affairs. I am unwilling to place her in that position if it would cause disturbance in her marital relation and tend to jeopardize her financial status.

I am glad the gentlewoman from Ohio [Mrs. BOLTON] courageously discussed the so-called moral side. They quote conditions in England and France. I had not supposed that the situation in those nations was on a higher moral plane than ours. I had thought they could carry on separate establishments with less criticism than we could. To illustrate, and I have no time for argument—

"Wot ees zees 'Golden Wedding' you speak of?" she asked. "We do not have eet een France."

"That," said the bishop, "means that this woman and I have lived together for 50 years."

"Ah, zat ees beautiful" the girl breathed. "So now you are getting married, no?"

Certainly we are not going to say that our morals are below the morals of those countries, but money is a very tender point. Women today who can make their own living hesitate about getting married. Why not force them to marry by way of a tax? Under this bill you will note that you have to make a sworn return and declare under oath whether you are living together or not. Many married people can live very happily in separate establishments no doubt.

He said: "I have been getting along splendidly for 3 years with my wife."

"Have you, indeed?"

"Yes."

"What is the matter now?"

"She came back."

Mr. Chairman, these may be slightly illustrative. I did have a speech I thought of some importance, as I had received valuable suggestions from many who have written me their opinions.

Many a woman would say, "What I have is mine, it don't belong to my husband; it never did; why should I disclose it to him?"

And so with the husband. A happy married life does not demand that. The question of money does separate many. You may call it "twaddle," if you will, but you cannot make people love each other by this bill.

We favor marriage. We give a married couple $2,000 exemption. But we now turn on them and soak them good by this bill.

I care and know little about your community-property laws. They may be vicious—I rather think they are. We are thinking of the status of women as a principle. It may be all right if they are happily married and willing to disclose and share property with their husband, but I do not want to see them forced to do so by legislation. Our women are independent persons, and I must recognize their full rights as such.

It may be a good thing to have no joint return, and make everybody file separate returns. If we want to save taxes on our salary by having our wives' property losses deducted we can now and do make joint returns. Would we not get more revenue by compulsory separate returns? Why do we not examine these figures? Perhaps it would be better to recognize husband and wife as separate people and force everybody to file separate returns. I do believe greater revenue would be obtained and violation of principle complained of avoided.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield 2 minutes to the gentleman from Louisiana [Mr. ALLEN].

COMPULSORY JOINT INCOME-TAX RETURNS

Mr. ALLEN of Louisiana. Mr. Chairman, the Ways and Means Committee has worked hard and long on this great tax bill and deserves much credit. The bill is the biggest tax bill in our history. It is the result of several months of work. The sums involved in the bill are staggering, but we have heard the demand from all parts of the country to render aid to England, and it takes a lot of money to do the things we are doing. I shall, therefore, vote for the bill because it seems necessary.

I rise in opposition, however, to section 111 which requires husbands and wives to file a joint income-tax return. I shall support the motion by the gentleman from California [Mr. BUCK] to strike this section from the bill. It seems to me that this matter may be considered from two aspects. First, the question of policy and, next, the question of power. As a matter of policy, is it good for Congress to do that? Then does Congress

have the power to do it? I shall probably not have time to go into the latter.

LOUISIANA LEGAL HISTORY

Louisiana has had three flags to fly over it—the Spanish, French, and United States flags. Louisiana, as you know, was purchased from France in 1803 and it remained a territory until 1812 at which time it was admitted to the Union. Prior to its admission, the Code Napoleon, found in the colony, had been adopted by the territorial legislature as the law of the land, and this became the Code of 1808. Students of legal history know that the Code Napoleon had a connection with the Roman law of the time of Emperor Justinian. When Louisiana was admitted to the Union in 1812, the Congress and President Jefferson knew that the the basic law of Louisiana was the French law, as set forth in the Civil Code. We were accepted into the Union under that system. That was 129 years ago and 105 years before we had our income-tax law.

I hold in my hand a copy of the Civil Code of Louisiana. Much of it is similar to the Code Napoleon. In fact, many of the articles still bear the old number.

CHARGE OF TAX EVASION

Mr. Chairman, I regret that speaker after speaker has taken the floor on this bill and many of them undertake to make it appear that people from community-property States are tax evaders. You propose in this bill to strike down our basic law—the Civil Code. Are we to be called tax evaders because we operate under a legal system contrary to most of the other States? You charge that the community-property States have an advantage. That is open to debate. Our system of law may have some advantages, but it might have some things that you in the common-law States might not like. In fact, some States that formerly had the community-property system abandoned it when common-law citizens moved in. But, be that as it may, it cannot with honesty be said that we are tax evaders in the community-property States merely because we operate under a system unlike yours. Certainly we did not create the so-called advantage, and the law was not adopted 133 years ago with any such thought.

INVASION OF STATE'S RIGHTS

The question, therefore, of any so-called advantage is really not material to the issue. The real issue is, Can Congress practically strike with nullity the very basic laws which were the foundation of our admission into the Union? Can Congress go into a sovereign State and strike down our legal system. Is it legally possible and is it morally right? Under our system of law, marriage is a contract, a partnership. The two spouses own in equal parts the products of their labor. As stated a moment ago, that fact was known to the President and Congress in 1812 when we came in. The rights embodied in our legal system might be considered as a sort of reservation of rights. Can this Congress now 133 years later deny those rights? I want to remind you from the common-law States who are minded to assist in this invasion of States' rights that you would do well to proceed with caution because that same exercise of Federal power might rise up to haunt you.

PENALTY ON MARRIAGE

I am not impressed, Mr. Chairman, with the argument that the mandatory joint return would lead to divorces, immorality, and so forth. I subscribe to the view that marriage is sacred and cannot and will not be placed on a dollar basis. But I do accept the argument that it will place a penalty on marriage, and there seems little doubt about that. The very fact that the combined incomes of husband and wife are added together so as to put the aggregate in the higher surtax bracket is proof that it does penalize marriage. The tax on the family unit is much higher than it would be on the same two people not married. The purpose of providing exemptions in income-tax laws has always been to promote marriage, to encourage home building, to induce people to assume the responsibilities of home life. The home is the earliest institution and it was divinely established, too. That divine institution should not be penalized. This bill does exactly that.

ECONOMIC AND FINANCIAL FREEDOM OF WOMEN

Moreover, Mr. Chairman, this move would go far to deprive American womanhood of the economic and financial freedom it has won over scores of years. Women in America long ago won the right to vote, and Congress and the various State legislatures have from time to time unshackled women until today they are no longer chattels and slaves but are the proud coworkers with men, freely handling their own financial affairs, and competing with men in the arts, sciences, and learned professions. Who would take this backward step? Who would relegate woman to the position she occupied many decades ago? A distinguished gentleman undertook to warn the Members awhile ago that to vote to strike this section out of the bill would bring down the wrath of voters on their heads. I want to say in reply to that that the women of America want this blot on womanhood stricken from this bill and I want to remind you that the women do about half the voting and they do all of the cooking and any group that does half the voting and all the cooking is a pretty good group to stick to.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield 1 minute to the gentleman from Nevada [Mr. SCRUGHAM].

Mr. SCRUGHAM. Mr. Chairman, I hold no brief for dodgers of taxes, wherever their residence, but I rise to protest against the proposed requirement of a compulsory joint income return for husband and wife. Such a requirement will be contrary to the American concept of equal rights and privileges. Under existing law the husband and wife are separate entities. It has taken centuries to change the medieval concept that the husband and wife are one, and that one being the husband, with the wife a chattel. The preposterous assumption that a man and wife are one only for income-tax purposes has no place on the statute books of this enlightened Republic. To require a woman to report her income as being the income of her husband is a flat denial of the independent status of womankind.

In the past it has clearly been the intent of Congress not to penalize the development of American family life, and there is no reason to now change its policy.

There is nothing new in this theory of the joint return. It was originally proposed as a constitutional method of invading the statutory rights of the so-called community-property States and has been repeatedly rejected. It is arbitrary and contrary to principles of our free Republic. I also have another marked objection to this proposed law which I desire to place on record.

The Second Revenue Act of 1940, approved October 8, 1940, carries the following section which is now the law:

SEC. 731. Corporations engaged in mining of strategic metals in the case of any domestic corporation engaged in the mining of tungsten, quicksilver, manganese, platinum, antimony, chromite, or tin, the portion of the adjusted excess profits net income attributable to such mining in the United States shall be exempt from the tax imposed by this subchapter. The tax on the remaining portion of such adjusted excess profits net income shall be an amount which bears the same ratio to the tax computed without regard to this section as such remaining portion bears to the entire adjusted excess-profits net income.

It is fully recognized by all of the agencies of our Federal Government that the strategic metals named in the above-quoted law are absolutely necessary to the defense of this country in the present emergency and that without them our position becomes grave, indeed. The above section of the law was passed by the Congress and approved by the President for the express purpose of developing and bringing into production every possible domestic source of these metals.

The defense agencies of our Government have urged the mining men of the United States to seek and produce the vitally needed metals in large quantities, and in responding to the request of their Federal Government, literally hundreds of these men have made heavy commitments. One operation alone has expended $5,000,000, and another $3,500,000, and so forth.

It must be emphasized and realized that these properties are uneconomic except at the present time, and that they cannot produce at the end of the emergency when cheap foreign metals will again fulfill the normal demand. Furthermore, to take more than the 30 percent of normal and surtax will make impossible the return of the many millions of dollars of investments during the short life that may be anticipated for these properties. These mines and mills, many of which are just going into production, have no record of prior earnings and an excess-profits tax credit of 8 percent on invested capital will be totally inadequate in view of the high risk encountered and the short life to be expected.

The elimination of this exemption from the excess-profits tax will actually

result in loss of revenue to the Government instead of increased revenues, because the throttling of incentive to seek and develop the marginal ores will kill productive enterprise. In relying on the present law producers are venturing large amounts in prospecting and consequently are taking risks of large losses. There are two particularly strong reasons why the Committee on Ways and Means, the Congress, and the executive branch of the Federal Government should not eliminate this well-considered exemption:

First. It is acting in bad faith with those who have gone ahead with the development of these metals under the appeal and encouragement previously given.

Second. It will result in the utter discouragement of any further development of ore bodies or recovery processes for these metals.

Again, it is repeated that the elimination of this exemption will not bring additional revenue but that it will result in heavily decreased revenues and its effect on our defense program will be disastrous.

The declared objective of the present excess-profit tax law is the prevention of war millionaires and of profiteering at the expense of the national-defense program. Congress adopted this objective in 1940 and again in March of this year. The primary function of the law is to tax excess profits at very high rates. It is essential that the tax apply only to true excess profits. As a necessary corollary, normal profits should remain subject only to the rates of a normal tax system.

The translation of this policy into a specific revenue statute is not easy. Yardsticks for measuring "normal" profits are difficult to devise. Nevertheless, the higher the rates of tax, the more imperative it is that fair standards be selected and applied. This problem of selection is seriously complicated by the fact that business enterprises vary so greatly with respect to their organization and their methods of financing and operation. Every enterprise involves fluctuating profits, recurring losses, and varying factors of risk.

The present law prescribes two principal methods of determining the allowance for normal profits: (1) Ninety-five percent of the average earnings for the 4 years, 1936–39, or (2) an 8 percent return upon invested capital. We believe the general plan is sound and fair. However, the application to the mining industry of the highly technical provisions of the present law produces unfair and unintended results in many cases.

The following outlines the more important facts which are particularly significant:

(1) Mining is a peculiarly hazardous industry—relying upon extraordinary profits for an occasional "hit" to offset the losses of frequent "misses."

(2) Many mines are "marginal" producers, and metal prices are widely fluctuating. For example, during the base period years, many mines were shut down or were operated at only partial capacity.

(3) Many mines were recently discovered—and many more, it is to be hoped, are awaiting discovery. In such cases, of course, their earning record (if any) is inadequate.

(4) The limited "invested capital" of a mine in full production usually bears no relation to the normal earning capacity of the enterprise and is insignificant compared to the true value of the property after it is brought into full production.

(5) The defense program is dependent upon the success of the mining industry, which, in turn, is dependent upon continued exploration, discovery, and development.

(6) With reasonably stable prices which the industry is assisting the Government to maintain, increased production results merely in earlier realization of profits and exhaustion of capital. If profit per unit does not increase, there can be no true excess profits.

(7) Average earnings: In general, the years 1936-39 were not representative of normal earnings in the mining industry. Some mines, because of low prices or low demand, were shut down during the whole or a substantial part of this period, or were operating at very low capacity. Others may have had profits in 1936 and 1937, but losses or small profits in 1938 and 1939. In such a period, the average earnings credit as computed under the present law does not fairly represent normal profits. Unless such mines have adequate amounts of invested capital as computed under the present law, they may have much, if not all, of their normal profits subjected to an excess-profits tax.

The invested capital allowance presents serious problems for the mining industry. The essential difficulty is that, in many instances, the invested capital allowance is not commensurate with the real value of the mine. Certainly the invested capital should not be limited to the cost of the undeveloped property. Many mines were discovered and developed after years of prospecting and labor, but without the investment of substantial amounts of capital. If the ore body has been developed or discovered during or after the base period, there will be no adequate earnings record. Even for a mine previously discovered or developed, adverse conditions may have resulted in wholly inadequate base-period earnings. In the absence of either invested capital or prior earnings, substantially all the profits of such mining enterprises will be subject to excess-profits tax, unless the special relief provisions, which are limited in application and often inadequate, can be applied.

Limitations in present provisions: The provisions in the present law dealing with the treatment of abnormalities are not general in character; in fact, they are so phrased and limited that it is the exception abnormality that can be relieved under these provisions, because of the strictness of their terms. They fail to give relief not only in cases of unanticipated abnormality but in many cases where hardship due to abnormality can be anticipated. The effect of the act is unreasonable as regards what hardships are relieved against and what hardships are not, and in many cases the tax result will be out of line with the common-sense business view that the worst kind of abnormality is the one that penalizes one competitor and does not penalize another.

(a) No kind of abnormality of invested capital is relieved against.

(b) In the case of abnormalities of income for the current taxable year no relief is provided for except with reference to an item which can be attributable in whole or in part to some other than the current taxable year.

The vast field of other income abnormalities which are peculiar to the current taxable year is left wholly unrelieved. One of them is the case where income has been substantially increased merely by improving executive management or by going into a different kind of business; for instance improvement starting in the year 1940 and culminating 2 or 3 years later in sound business results having nothing to do with profiteering or anything connected with the war situation. The only place in the law where any special treatment of abnormalities of income in the taxable period is dealt with is section 721; even as to income which is attributable to some earlier or some later year, no relief at all is to be given unless a comparison with a 4-year test period shows that the abnormal item in the taxable period is more than 125 percent of the average amount of the gross income of the same class during the test period. This depends entirely on how the word "class" is construed, and at best puts an unreasonable limitation on the amount of the relief.

Suppose the taxpayer has an unusual item of income for services in the current taxable year, with no taint of profiteering or of war activity. Even though attributable to another year, it cannot be shifted or adjusted if the bureau holds, in determining the average amount of the gross income of the same class during the 4-year test period, that certain other items of income abnormally received during those test years are of the same class. Also, if the income of that class in the current taxable year, is, say, $125,000, and the average amount of gross income of the same class for the test period is, say, $100,000, the corporation gets no relief whatever for the $25,000 excess. In other words, this $25,000 of income is treated in this law as if it deserved to be considered excess, when it plainly is not excess income.

(c) The only other provisions for the relief of abnormalities are those dealing with base-period income for purposes of the income credit. Any relief along this line must be found either in section 711 (b), (1), (H), (I), (J), and (K), or in section 722.

In the provision concerning abnormal deductions in section 711 (b), (1), (J), there are the same difficulties as to the application of the term class and the same difficulties growing out of the 125-percent figure.

Suppose a corporation had to pay a fee of $25,000 in one of the base-period years for attorneys' fees in resisting an unfounded Government claim for windfall taxes. That would seem to be abnormal, but if the Government should hold that the class is attorneys' fees, and the company from year to year has paid

attorneys' fees averaging $20,000 a year any relief is denied here. Furthermore, if the taxpayer is otherwise entitled to relief under section 711 (b) (1) (H) (I) or (J), he does not get the relief unless the taxpayer establishes that the abnormality is not due to "an increase in the gross income of the taxpayer" in its base period, or a decrease in the amount of some other deduction in its base period, and is not due to a change at any time in the type, manner, or operation, size or condition of the business (subdivision (k) (ii)).

If the taxpayer gets by all these obstacles, it is still denied the relief by subdivision (K) (iii) unless the abnormal deduction item in the base-period year is less than the amount of the deductions of such class for the current taxable year. That is, suppose the amount paid for attorneys' fees in defending against a windfall tax claim was $30,000, and the average for attorneys' fees in the test period was $20,000, the taxpayer might get an adjustment to the extent of $5,000, but if, because of business expansion and war conditions, its attorneys' fees in the current taxable year had been as much as $30,000, section 721 does him no good.

To make this relief depend upon the peculiar conditions of the current taxable year—presumably a year influenced by war conditions—must result in the failure of any relief, in many cases which ought to have it.

(b) We come finally to the long and involved section 722, entitled "Adjustment of abnormal base period net income." It covers an extremely narrow class because it does not apply at all except to cases where the taxpayer has changed the character of the business and cases where there was interruption of operations due to the occurrence of abnormal events. In other words, no taxpayer that did not change the character of its business before 1940 or did not interrupt its operation can look to 722 for any relief whatever.

Even the taxpayer whose abnormalities are due to one or the other of the foregoing causes gets no relief except it establishes the fact showing that it is outside the following limitations:

(A) Genuine abnormalities no matter how unreasonable the results, cannot be considered under section 722 if they belong to the following most frequently met with instances of abnormality: High prices of materials, labor, capital, or any other agent of production, low-selling price of the product of the taxpayer or low physical volume of sale owing to low demand of such product or for the output of the taxpayer.

(B) Even though a taxpayer suffered abnormal losses of very large sums in the first 3 taxable years, it gets no relief at all if its excess-profits net income (as computed under sec. 722) showed a reasonably good result. That is, under section 722 (b) (4), the average base period net income under section 722 can never be adjusted to a lower point than can its last taxable year in the base period. The insertion of this limitation will prevent relief under section 722, without any logical reason at all, in a considerable number of cases.

(C) There is no relief at all unless the tax computed without reference to section 722 exceeds 6 percent of the taxpayer's normal tax net income for such year.

(D) No relief under section 722 is possible except to the extent that the application of the section would result in a diminution of the excess-profits tax otherwise payable by more than 10 percent.

The fact that a great many words in the law have been devoted to the provisions about treatment of abnormalities does not mean that the provisions are broad in their effect. On the contrary, most of the words have been devoted to cutting down the area of application. The unusual cases are the ones that are relieved, the usual ones are the ones that are left unrelieved by the existing provision.

Mr. DOUGHTON. Mr. Chairman, I yield 1 minute to the gentleman from California [Mr. THOMAS F. FORD].

Mr. THOMAS F. FORD. Mr. Chairman, first let me say that I fully appreciate the arduous work the committee has put on this bill, and I realize the difficulties encountered. Faced with the necessity of raising revenues of an unprecedented total, doubtless many members of the committee accepted provisions which they ordinarily would oppose.

With the closed rule, which I opposed, there is little we can do except to express our opinion. There is, however, one provision of the bill which we can demolish today, and that is the section providing for joint returns of income tax in those States where separate returns are the law. The people of my State think they have a right to continue to regard a man as a human being and a woman as another human being. They do not think a woman should lose her right to economic independence as this provides. They question the constitutionality of the provision and insist that if a State has any rights at all, it has the right to determine such a tax policy as this.

I am strongly opposed to the levying of a uniform use tax on automobiles. It seems to me ridiculous that a workman, owning a $50 jallopy, used primarily to go to and from his work, should pay the same use tax as that levied on the $5,000 limousine. If those cars valued at less than $300 were exempt, there would be some justice. Also I think that owners of cars valued in excess of $1,000 should pay on a valuation basis. I am as much opposed to a use or unit tax on automobiles as I am to a poll tax on individual voters.

The idea of taxing radio and billboard advertising and exempting magazines and newspapers, both of which already enjoy a substantial subsidy amounting to some $129,000,000 per year in the way of postage rates, seems to me unjust.

If I may, I would like to ask the committee if a tax on newspapers and magazines was proposed; on what ground it was eliminated; and just what argument was presented to justify the exemption?

This was partially answered by one member of the committee, who stated that newspapers and magazines, as a source of revenue, had not been reached.

Mr. TREADWAY. Mr. Chairman, I yield 5 minutes to the gentleman from Michigan [Mr. DINGELL].

Mr. DINGELL. Mr. Chairman, we have heard a great deal this afternoon about the question of striking section 111 from the bill. It has been referred to as a discrimination against women, against married couples, and in other similarly ridiculous terms. I contend there is no discrimination in section 111, either real or implied, insofar as women are concerned. In fact, there is no mention of either skirts or breeches in the bill, so you may just as well forget that and get down to brass tacks.

We hear a lot of talk about chivalry and about placing women in bondage, and that the section seeks to make mere chattels of women, but I have not heard anybody say anything about misplaced chivalry or the abject submission on the part of some women who have permitted themselves to be used by tax evaders in order to get into the lower-income tax brackets. That is something you cannot explain or get away from. In my State and every other State the problem we seek to correct exists, the same thing is true. Every legalistic scheme possible was employed to get away from the higher brackets to get down into the lower brackets in order to take advantage of the lower tax rate. The abuse is in full bloom in the community property States, particularly expensive to the Government. We do not hear any objection to section 111 from the 94 percent throughout the Nation or from about 97½ percent in my State who are already and without compulsion making joint returns. They have no fears.

This objection, Mr. Chairman, comes from a select few in Michigan and in every State. The howl is most pronounced from the direction of California, Texas, and the community-property States. Who are they who oppose the joint return? Based on my mail—and I think the same is true generally—those listed in Who's Who are opposed to it, not those who till the soil, not those who mine coal, not those who make the steel, not those who are in the military camps today—but the select and privileged few, that element referred to by the gentleman from Illinois [Mr. MCKEOUGH] that in the past few years transferred billions of dollars of securities into the hands of their wives in order to get away from the payment of their just share of taxation.

I say to you if you strike section 111 from this bill, your vote will haunt you at election time, and that is not any bugaboo. That is, as a matter of fact, a truth. Insofar as I am concerned, this question is not dead regardless of how it goes here today, because, sooner or later, this committee is going to have to bring before this House a bill that will restore the $323,000,000, which it is intended by the minority to kick out. If you do that, here is about the way it will hit the average person.

Under this bill the community-property States taxpayer with an income of $10,000 is expected to pay $880. In my

State the same income-tax payer is expected to pay $1,166. If you strike section 111 from the bill, you better be prepared at the same time to assume an increased tax burden, and you will be called upon in all probability to pay $1,628. If you want to do that for the love of the community-property States, if you want to do that for the select few of your State, which in numbers runs from about 2½ to 5 percent of the total of taxpayers, if you want to confirm the special privilege enjoyed in the non-community-property States, then by all means vote to kick section 111 out of the bill and prepare yourselves to pay the difference, because that is exactly what is going to happen.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield 3 minutes to the gentleman from Missouri [Mr. COCHRAN].

Mr. COCHRAN. Mr. Chairman, we hear a great deal in reference to discrimination in assessing taxes. In my opinion, the provision requiring husband and wife to make a joint return is not discrimination. Those who claim it is discrimination must admit it affects less than 5 percent of those who make income-tax returns because it is my understanding that over 95 percent of married couples make joint returns.

Here you have a provision, if inserted in the bill, will require husband and wife to pool their income and make a joint return, while under the provisions of existing law it is possible for a husband to reduce his taxes by presenting as a gift to his wife part of his holdings and then the wife and husband would make individual returns which would not be subject to as much surtaxes as a joint return would be. It is true at the time the gift was made, if subsequent to 1932, the gift tax was paid. It is likewise true that some wives inherited money, other than from their husbands, or a business, but I am informed that that class is less than 1 percent. Prior to 1932, with the exception of 1924, there were no gift taxes, and, therefore, when the spouse transferred money to one another, no gift tax was paid.

We have heard much about ability to pay in assessing taxes. That is just exactly what you are doing with the provision under discussion, assessing those who have ability to pay. On the other hand, if the motion to strike this provision from the bill prevails, the measure will be over $329,000,000 below the amount that we seek to raise. We must find other ways to raise this money if you strike this section out, and I predict that in the end the great majority of this amount will be secured through excise taxes. Now, what are excise taxes? Nothing but a hidden sales tax, and where less than 5 percent of income-tax payers are affected by the joint-return provision, 100 percent of income-tax payers, including that class whose income is not sufficient to require them to pay any income tax, will be directly affected by the additional excise taxes. There are hundreds of thousands who cannot shoulder this burden. They only have an income now that is but a mere pittance.

Nine hundred million dollars more in revenue will be raised by the new excise or sales taxes as provided for in this bill over the amount raised by existing law, which is $2,535,184,000. You expect under this bill to raise $3,435,184,000 in excise or sales taxes, with, as I say, all the people, regardless of how rich or how poor, contributing toward that amount. I have never been for an outright sales tax, and I hope that the condition of this country will never warrant the Congress in imposing a sales tax because, in my opinion, if there is discrimination a sales tax would discriminate against those who do not have the ability to pay, including those with less than a $1,000 yearly income. It would be at their expense that we would raise the revenue and the benefits would accrue to those who have the ability to pay.

The way I figure it out is that I will be required to pay approximately three and one-half or four times as much in taxes next year as I paid for the year 1940, with no increase in income. I make no complaint, because if it is necessary for me to give 20 or 25 percent of my income to the Government, I am perfectly willing to do so, if the balance of 80 or 75 percent will continue to be worth 100 cents on the dollar.

I cannot conceive how anyone would want inflation, and that is what we are headed for if we do not pay part of the national-defense bill as we spend. To saddle this entire amount upon the public debt spells inflation.

I am sorry to hear the chairman of the committee say that we will have another tax bill next year. If it is on the way, why not do the job now and not wait until next year? If we do, and we will also pass legislation providing price control, then inflation is out of the picture entirely.

Let us think now of the 95 percent of our taxpayers who will be affected by the defeat of this proposal. It is just one more effort to close up a loophole in our tax laws through which a small group have escaped paying a just tax. Their country by dire necessity needs this financial help now. It is their country that protects their holdings, and they should cheerfully contribute and ask no special privileges.

The gentleman from New York [Mr. REED] stated a moment ago word has come in the last few days to both sides of the aisle that if this provision carries, look for no compaign contributions. If there is one Member who is influenced by such a threat, then I say that Member is not fit to be among us. I cannot conceive that such a statement will have any bearing on any vote; at least, I hope it will not. I ask, would they rather contribute to a political party than to their country that is in need?

I sincerely hope that the motion to strike this proposal from the bill is defeated.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield 1 minute to the gentleman from Alabama [Mr. PATRICK].

Mr. PATRICK. Mr. Chairman, I have heard Members get exercised here because, they say, this will have a tendency to decrease the birth rate in America. Everybody who has ever studied the situation in this country knows that the stork will come down the chimney right when the wolf is nosing around the front door. The group this tax should come from, the group that you hear making a big outcry in connection with this matter, is not as a rule the childbearing group. So you can disregard that argument. One Member stated that God never instituted marriage, but God made man and woman, and man and woman instituted marriage. The Book of Faith of the overwhelming majority of this group gives a divine plan and initiation of the marriage bond. The status contemplated in this part of the bill is not a fiction but a fact.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Chairman, I yield 9 minutes to the gentleman from Texas [Mr. SUMNERS].

Mr. SUMNERS of Texas. Mr. Chairman, I assume we are getting toward the conclusion of the consideration of this motion. It is a tremendously important thing that we are about to vote on. In the first place, the Ways and Means Committee has done a great deal of work on this bill and I agree that the Members of the House ought to stand by the members of that committee if they can in good conscience and sound judgment do so.

There are two or three things that are important and I want to talk about them in a conversational way. Before I do that, may I suggest to the distinguished gentleman from Illinois that possibly some of those divorces that have been granted out around Reno might be traced pretty nearly back to his own State, but we will not talk about that.

If this provision in the bill does not have constitutional support, the quicker that is determined and the provision eliminated, and the Ways and Means Committee goes to work finding revenue from a source that will stand up, the better it will be for everybody. That is a clear-cut proposition. Everybody will agree with that I believe.

Now, let us see about that. I agree with one of the gentlemen who spoke today that these constitutional questions should in the first instance be determined by the House itself.

We may not look exclusively to the determinations of the Supreme Court as conclusive in determining our own responsibility and duty under the Constitution because it is within the power of the Houses of Congress in instances to do a violence to the Constitution which is beyond the restraining and corrective power of the court. As to such a violation, we answer alone to our conscience and to the people. However, as to this sort of matter we must operate in addition to that restraint within the limitations already fixed by the Supreme Court.

Nobody will attempt to controvert that. This question, this identical question has been directly before the Supreme Court and the Supreme Court as definitely as it has ever announced its judgment declared that this sort of a tax arrangement cannot stand up. That is what we

are up against as a practical legislative proposition. Not only do we have this decision of the Supreme Court, but the decision rests on reasons that are sound and compelling and within the understanding of us all. Nobody has been able to challenge, or at least I do not believe so, the soundness of the reasoning of the majority of the Supreme Court on the question which arose in the Hoeper case, from which I quoted extensively last Friday and upon which the Supreme Court based its conclusion that what is here proposed is unconstitutional. Even the opinion by Mr. Justice Holmes in that case, and I refer to the dissenting opinion, sustains the position taken here by those who claim this provision is not constitutional. Mr. Justice Holmes held that the States fix the status of husband and wife and the Supreme Court should recognize that fixation as binding. The majority of the Court held that even the State of Wisconsin, which had the constitutional power to fix the marital status, could not go as far as it is here proposed to have the Congress go, which has no powers whatever to fix the marital or the property status or any other relationship incident thereto.

Justice Holmes held, and I assume those of the Court who agreed with him held, that the determination of the status,—the marital relationship—was a matter that was in the governmental jurisdiction and power of the States, and that the State in passing the law, the constitutionality of which was before the court, had in its passage to that degree fixed the marital status, and it was therefore the duty of the Supreme Court to follow the determination of the State. I want to emphasize this point because considerable attention has been centered upon the fact that Justice Holmes and the now Chief Justice dissented.

That dissenting opinion, held that the action of the State in this fixation was within its power, its exclusive power, and was binding upon the Supreme Court. That is exactly the contention of the opponents of this provision. I realize this is an unusual way to examine an opinion by the Supreme Court but point has been made as to this dissent, and I am taking the liberty of pointing out that it was a dissent against the power of the Supreme Court, equally applicable of course to the Congress, to disregard the finality of the State's action in fixing the status of husband and wife, as that status may be considered in relationship to income tax.

Thus we have the majority of the Court holding squarely against the constitutionality of the power here attempted to be exercised even when a State which has the power to fix the marital status attempts it, and the minority declaring the finality of State action fixing the marital status, and so forth. This section 111 therefore is contrary to the reasoning of Mr. Justice Holmes as to the finality of State action and is contrary to the clear-cut opinion of the Supreme Court that even a State possessing this power could not do what it is here proposed to have the Congress do.

Let us see where we go from there. There is no question—and none of the gentlemen who have appeared heretofore have questioned—that States have fixed an independent - marital - relationship status. They have fixed a status of woman and a status of man as independent with reference to the property they own and the obligations they owe to the Federal Government, as if they were not married and had no relationship at all with each other. Nobody is going to controvert that, and I assume it will not be controverted that in so doing the States were operating within their own exclusive governmental powers and their action was final and binding upon all governmental agencies, including the Congress and the courts, subject, of course, to certain restrictive constitutional provisions not applicable here.

That brings us face to face with this concrete, definite proposition: Should the Committee on Ways and Means, in the first instance, and the House, in the second instance, disregard that fact, that determinative fact? Should we attempt under these circumstances arbitrarily to put these two legally separate, independent persons together in their tax returns, thereby forcing them into a higher bracket by the mandate of Congress? It seems to me the question answers itself. We operate under constitutional limitations which cannot be removed by recitation of the percentage of the people affected or the need for more money. It cannot be done; that is the point, however much we might be willing to do it. The Supreme Court has held we cannot do it, and reason determines that we cannot do it. It seems to me every consideration should prevent us from doing this very thing.

We could not put John Smith and Bill Brown together in one tax return in order to make John Smith and Bill Brown pay more money into the Treasury than they otherwise would pay. It could not stand up. It has been knocked down by the Supreme Court. We can just as well put John Smith and Bill Brown together and compel them to make a joint return as we can compel the woman and the man because they are married to make a joint return. Insofar as anything Congress can do about it, the Supreme Court has held their individual status for tax purposes to be the same.

Mr. DINGELL. Mr. Chairman, will the gentleman yield?

Mr. SUMNERS of Texas. I yield to the gentleman from Michigan.

Mr. DINGELL. Do they not put John Smith and Bill Brown together in a partnership under the tax laws?

Mr. SUMNERS of Texas. I would like not to go too far afield if my friend will excuse me. I regret to oppose this great committee. We all make mistakes in our committees. This committee, so the Supreme Court in the Hoeper case says, has made a mistake by incorporating the provisions of 111 in this bill.

Under the Supreme Court decision they could just as well say that the farmers in a community or any other group of people that they feel they could put together should make a joint return and, therefore, make them pay more money. True, the man and woman are husband and wife, but they are independent for the purposes of income taxation. They are just as independent, insofar as the necessity and opportunities and obligations to make these returns are concerned, as if they had never known each other. There is no recognition anywhere in our law that the husband and wife as to their separate incomes sustain any sort of relationship such as that in a partnership, a corporation, or in a voluntary association.

We love our friend, the chairman of this committee. I regret to have to differ with him. We have great appreciation for what the members of his committee have done. If the position of the opponents of section 111 is sound we are doing no disservice either to the committtee or the country by asking for its elimination now. The contrary is true.

Mr. KEEFE. Mr. Chairman, will the gentleman yield?

Mr. SUMNERS of Texas. I yield to the gentleman from Wisconsin.

Mr. KEEFE. Is it not the gentleman's opinion that if the committee is correct in its assumption of power to tax the family as a unit by compelling the consolidation of returns, it might just as well have gone a step further and included in the consolidated return the income of adult children who are living under the same roof as a part of the family?

Mr. SUMNERS of Texas. I went further than that in my statement.

Mr. KERR. Mr. Chairman, will the gentleman yield?

Mr. SUMNERS of Texas. I yield to the gentleman from North Carolina.

Mr. KERR. Will the gentleman concede that by making a joint return the husband and wife get on a different level of taxes than if a single return is made?

Mr. SUMNERS of Texas. Probably that is so.

Mr. KERR. If the gentleman admits that, how can you do that under section 8 of the Constitution, which states that all taxes must be uniform?

Mr. SUMNERS of Texas. I cannot discuss that great question in the minute remaining.

Mr. DISNEY. Mr. Chairman, will the gentleman yield?

Mr. SUMNERS of Texas. I yield to my friend from Oklahoma.

Mr. DISNEY. May I inquire if the distinguished gentleman has any suggestion as to how this whole situation may be cured?

Mr. SUMNERS of Texas. No; I have not.

Mr. DISNEY. The gentleman has not?

Mr. SUMNERS of Texas. No; I cannot profess to know, as the gentleman knows, how to do it.

Mr. DISNEY. I remember that before when the gentleman appeared against the resolution of the gentleman from Massachusetts [Mr. TREADWAY] to do away with the community property preference, he suggested that Congress should not do it, that it should prepare a statute that was all-inclusive. I wonder what the gentleman meant by that?

Mr. SUMNERS of Texas. I regret there is not time to go into that matter now nor any other. What I have had

time to say here is more or less supplementary to what the committee permitted me to say last Friday, which appears at page 6644 of the RECORD of August 1.

[Here the gavel fell.]

Mr. TREADWAY. Mr. Chairman, I yield the balance of my time to the gentleman from New York [Mr. CROWTHER].

Mr. CROWTHER. Mr. Chairman, of course we all listen with great interest to the distinguished gentleman from Texas [Mr. SUMNERS], who is chairman of the Judiciary Committee, and yet as I sat there I marveled that in his state of single blessedness he should know so much about the complications of the marital status.

Let me say to the gentlemen from the community-property States that they have suggested several times that their constituents have been accused of tax evasion in an unfriendly manner. The fact is that all during the committee meetings and during the hearings the proposition advanced was that under the community-property law there was opportunity for legal avoidance and we tried to stress that. As I stated the other day, Thomas Adams, the great expert, said that there were two methods of getting away from taxes. One was illegal evasion and the other was legal avoidance. I thought that was a very clever differentiation, and under the community-property law there is ample opportunity for legal avoidance.

Mr. Chairman, I know that speeches are not going to change anybody's mind as to how he is going to vote on the amendment that has been offered. I imagine it will be an exhibition of about as clear independence of thought in the shape the matter now is as any vote that was ever taken on this floor.

Mr. Chairman, taxation has been a troublesome problem ever since the dawn of civilization. The citizen who asked the Saviour, "What shall we render unto Caesar?" presented a tax problem. And now in these later days, amidst the complications and growing responsibilities of modern civilization, and their attendant vast expenditures, our citizenry, as in days of old, repeat the inquiry, "What shall we render unto Caesar?"

The primary purpose of levying the additional taxes in this bill is to partially defray the cost of national defense. No one member of the committee is in entire agreement as to all the provisions of the bill. It is in a sense a compromise of conflicting opinions as between the committee, the Treasury experts, and the associates of the Joint Internal Revenue Committee.

It contains but one drastic change, when considered in connection with previous tax policies. I refer, of course, to the subject under discussion, mandatory joint returns.

In my humble opinion, in view of previous decisions, the courts will probably hold that such a policy is within the realm of "reasonable classification."

Mr. Chairman, throughout the length and breadth of our beloved country there has come from the press, the pulpit, and the political rostrum a clarion cry for unity.

What a splendid opportunity presents itself at this moment to aid in effectuating that unity. An opportunity for the Congress and for the folks we represent.

Let all married men say to their wives, "Fair lady, dost thou realize that in making separate tax returns we have profited mightily thereby for lo, these many years? And now, forsooth, Uncle Sam desireth to put his house in order and guard it against those who would destroy it. Let us all join hands, husbands and wives, of both community property and noncommunity States and declare that we will help him. You, fair lady, will lose none of the rights and privileges that you have so assiduously sought and so rightfully deserved. Your status is forever assured and is as determinate as the position of the pole star."

If I thought the adoption of this policy would in the slightest degree restrict or hamper the way of life of our American women, or their liberty and pursuit of happiness, I would not thus beseech thee.

Therefore, I pray thee, join with me in this endeavor to stimulate this spirit of unity which has contributed so materially and is so necessary to the maintenance of this great Republic.

Mr. Chairman, I yield back the balance of my time.

The CHAIRMAN. The gentleman from New York yields back 2 minutes.

Mr. TREADWAY. Mr. Chairman, I yield the 2 minutes I have remaining to the gentleman from North Carolina.

Mr. DOUGHTON. Mr. Chairman, I yield myself the remainder of the time and I ask unanimous consent to revise and extend my own remarks in the RECORD.

The CHAIRMAN. Is there objection to the request of the gentleman from North Carolina?

There was no objection.

Mr. DISNEY. Mr. Chairman, will the gentleman from North Carolina yield for one question?

Mr. DOUGHTON. I yield to the gentleman.

Mr. DISNEY. I desire to inquire of the chairman of the committee if he can see any reason why the law should give the family the right to exemptions as a unit and not fix upon the family, the husband and wife, the responsibility of taxpaying as a unit.

Mr. DOUGHTON. I regret that that great constitutional question was not propounded to the gentleman from Texas [Mr. SUMNERS]. I can, of course, see no justification for treating married couples one way for purposes of the exemption and another for tax purposes. I would like for someone to answer that. If they cannot combine them for tax purposes, how can they combine them for exemption purposes? When it is to their advantage there is no constitutional question raised, but when it is not to their advantage, of course, the constitutional right is brought up then and that interferes with their conscience or their judgment as to the constitutionality of the proposed provision in the bill.

The pending motion to strike out mandatory joint income-tax returns in the bill presents no personal issue, no committee issue, nor does it constitute a party issue. This is truly a national issue which affects every citizen and especially every Federal taxpayer in the country. In simple terms, it is this:

Should all Federal taxpayers be placed upon a plane of equality, regardless of the State or place of their residence? Should 95 percent of the taxpayers be required to pay higher taxes because the law permits the other 5 percent, who are more able to pay taxes than the 95 percent, to enjoy a special subsidy?

As to the community-property States, around which there has revolved so much discussion, even in those States only a very small minority or less than 14 percent get any advantage from the discriminatory provisions of the present law, while the other 86 percent, even in the community-property States, must pay higher taxes because of special benefits received by the few.

How Representatives in Congress from those community-property States can give preferential consideration to the 14 percent, when in so doing they must place heavier burdens on the 86 percent, is beyond my comprehension. This, of course, is for them to reconcile with their own consciences and the people whom they represent. But what about the 96 percent of the people in the non-community-property States who get no advantage under the present law but who must pay additional taxes on account of the benefits that accrue to the 4 percent, who are more able to pay taxes than the other 96 percent?

The issue is clear, but unfortunately not well understood by the entire country. It has been greatly beclouded by the most widespread and selfish propaganda I have ever known in connection with the consideration of any tax bill.

To my colleagues of the non-community-property States: Can we be responsible for continuing a policy or a provision of law which compels us on our salaries or other taxpayers similarly situated, under similar conditions, to pay $286 per annum more for the support of our Government than those living in the community-property States? How can we vote to condone such a glaring inequity and injustice to the people whom we represent? They may not all know or fully understand its effect now, but they certainly will as the result of the wide publicity now being given to this subject. If we do not close this stupendous loophole and stop this legal tax avoidance, then how can we justify imposing still heavier taxes or increasing present taxes to the amount of $329,000,000 to make up the amount of revenue which will be lost if the pending motion is adopted? Everyone must recognize that this is one of the most glaring loopholes which has ever been permitted under our tax law.

No question is ever settled until it is finally settled right. If, by any chance, the pending motion should be adopted today, the battle will not be ended but will continue with increased fury. If the motion to strike this provision from the bill prevails, I believe that, like Banquo's ghost, the problem will continue to haunt us until the righteous wrath and indignation of the intelligent people of this Nation compel the removal of this injustice.

Truth crushed to earth must rise again more powerful than ever.

Do not think for a moment that if you adopt this motion you will not have to face the direct issue of raising this amount from some other source.

There is no way by which we can avoid the responsibility for the three and one-half billion dollars in revenue to be raised by the bill. If this three hundred million is lost by the elimination of the joint-return provision, it must be made up somewhere else. It may come back to us in the form of increased income-tax rates, or in the excise-tax group, which increases were so strenuously opposed by the President, or in all of these types of taxes. It may fall upon automobiles, upon gasoline, or any one of the other commodities already heavily taxed.

These are the facts which must be in our minds as we approach this important vote. We must weigh them carefully and take the responsibility for our action. I feel certain that if this is done the motion will be defeated and the joint-return provision will remain in our bill.

Mr. KNUTSON. Mr. Chairman, will the gentleman yield?

Mr. DOUGHTON. Yes.

Mr. KNUTSON. Is not a vote to eliminate section 111 in effect a vote to increase taxes in the lower brackets?

Mr. DOUGHTON. Undoubtedly. The people in the lower brackets are not affected by the joint-return provision unless they have a net income of more than $4,000.

Mr. Chairman, my friend, the gentleman from Ohio [Mr. JENKINS], raised the Bible and waved it in my face, and in return I ask him to read the Saviour's Sermon on the Mount where he says:

Lay not up for yourselves treasures upon earth, where moth and rust doth corrupt, and where thieves break through and steal.

But lay up for yourselves treasures in heaven, where neither moth nor rust doth corrupt, and where thieves do not break through nor steal.

For where your treasure is, there will your heart be also.

My friends, in this great controversy, in this great issue of national significance, it seems to me, and I regret to think it, much less to express it, that many people throughout this country have a working agreement between their consciences and their pocketbooks, and if that condition should become Nation-wide, then where is the foundation upon which our national security rests? The issue here today is one of integrity, one of fair dealing, one of fair play in matters of taxation, and that is the issue that will confront us and must confront us, when we approach the settlement of this great question. Defeat the joint-return provision today, and it may be that the taxes on automobiles and on gasoline and the personal income taxes will have to be increased. This question will come back to haunt you like Banquo's ghost, and it will not be settled until it is settled right.

The CHAIRMAN. The time of the gentleman from North Carolina has expired.

All time has expired.

The question is on the amendment offered by the gentleman from California [Mr. BUCK].

The question was taken; and there were (on a division demanded by Mr. BUCK) ayes 179 and noes 135.

Mr. DOUGHTON. Mr. Chairman, I demand tellers.

Tellers were ordered and the Chair appointed Mr. BUCK and Mr. DOUGHTON to act as tellers.

The Committee again divided and the tellers reported there were ayes 197 and noes 139.

So the amendment was agreed to.

The CHAIRMAN. Under the rule the Committee will rise.

Accordingly the Committee rose and the Speaker having resumed the chair, Mr. COLE of Maryland, Chairman of the Committee of the Whole House on the state of the Union, reported that that Committee had had under consideration the bill H. R. 5417 and pursuant to House Resolution 280 he reported the same back to the House with sundry amendments adopted in Committee of the Whole.

The SPEAKER. Under the rule the previous question is ordered. Is a separate vote demanded on any amendment?

Mr. DOUGHTON. Mr. Speaker, I demand a separate vote on the Buck amendment.

The SPEAKER. Is a separate vote demanded on any other amendment? If not, the Chair will put them en grosse.

The other amendments were agreed to.

The SPEAKER. The Clerk will report the amendment upon which a separate vote is demanded.

The Clerk read as follows:

Amendment offered by Mr. BUCK: On page 13, beginning in line 5, strike out all of section 111.

The SPEAKER. The question is on agreeing to the amendment.

Mr. DOUGHTON. Mr. Speaker, on that I demand the yeas and nays.

The yeas and nays were ordered.

The question was taken and there were—yeas 242, nays 160, not voting 30, as follows:

[Roll No. 98]

YEAS—242

Allen, Ill.	Byron	Dondero
Allen, La.	Camp	Douglas
Anderson, Calif.	Cannon, Fla.	Downs
Anderson, N. Mex.	Capozzoli	Dworshak
	Carter	Eaton
Andresen, August H.	Chapman	Elliott, Calif.
	Chenoweth	Elston
Andrews	Chiperfield	Engel
Angell	Clason	Englebright
Arends	Clevenger	Fellows
Baldwin	Cluett	Fenton
Barry	Coffee, Nebr.	Fish
Bates, Mass.	Coffee, Wash.	Fitzgerald
Baumhart	Cole, Md.	Flannery
Beckworth	Cooley	Ford, Leland M.
Beiter	Copeland	Ford, Thomas F.
Bell	Costello	Gale
Bender	Cravens	Gamble
Bennett	Crawford	Gavagan
Bishop	Crosser	Gearhart
Blackney	Culkin	Gerlach
Bloom	Cullen	Gifford
Boggs	Cunningham	Gillie
Boland	Curtis	Gossett
Bolton	Day	Graham
Boykin	Delaney	Grant, Ind.
Bradley, Mich.	Dewey	Green
Brooks	Dickstein	Guyer, Kans.
Brown, Ohio	Dies	Hall, Leonard W.
Buck	Dirksen	
Buckley, N. Y.	Ditter	Halleck
Butler	Domengeaux	Hancock
Harness	Ludlow	Satterfield
Harrington	Lynch	Schaefer, Ill.
Harris, Va.	McCormack	Schuetz
Hart	McGranery	Scrugham
Hartley	McGregor	Secrest
Healey	McLaughlin	Shanley
Hébert	McLean	Shannon
Heffernan	Maciejewski	Sheppard
Heidinger	Maciora	Sheridan
Hess	Magnuson	Simpson
Hill, Wash.	Mahon	Smith, Maine
Hinshaw	Mansfield	Smith, Ohio
Hobbs	Martin, Iowa	Smith, Va.
Holmes	Martin, Mass.	Smith, Wash.
Howell	Mason	Smith, W. Va.
Hunter	Meyer, Md.	Somers, N. Y.
Imhoff	Mills, La.	South
Izac	Moser	Stearns, N. H.
Jackson	Murdock	Stratton
Jarman	Norrell	Sumner, Ill.
Jarrett	Norton	Sumners, Tex.
Jenkins, Ohio	O'Brien, Mich.	Sutphin
Jennings	O'Brien, N. Y.	Sweeney
Johns	O'Leary	Taber
Johnson, Calif	O'Toole	Talle
Johnson, Ill.	Pace	Tenerowicz
Johnson, Luther A.	Paddock	Thomas, Tex.
	Patman	Thomason
Johnson, Lyndon B.	Patton	Tibbott
	Peterson, Fla.	Tinkham
Johnson, W. Va.	Pheiffer, William T.	Tolan
Jones		Traynor
Jonkman	Pittenger	Van Zandt
Kean	Plauché	Vorys, Ohio
Keefe	Ploeser	Wadsworth
Kefauver	Plumley	Walter
Kelley, Pa.	Poage	Welch
Kelly, Ill.	Powers	Wene
Kennedy, Michael J.	Ramspeck	West
	Randolph	Wheat
Keogh	Reece, Tenn.	Wigglesworth
Kilburn	Reed, Ill.	Wilson
Kilday	Robsion, Ky.	Winter
Kinzer	Rockefeller	Wolcott
Kleberg	Rodgers, Pa.	Wolfenden, Pa.
Kopplemann	Rogers, Mass.	Wolverton, N. J.
Kramer	Rolph	Woodrum, Va.
Kunkel	Russell	Worley
Lanham	Sacks	Wright
Lea	Sanders	Young
Leavy	Sasscer	Youngdahl

NAYS—160

Andersen, H. Carl	Fulmer	Mott
	Gathings	Mundt
Arnold	Gehrmann	Murray
Barnes	Geyer, Calif.	Myers, Pa.
Beam	Gibson	Nelson
Bland	Gilchrist	Nichols
Boehne	Gore	Oliver
Bonner	Granger	Patrick
Boren	Gwynne	Pearson
Bradley, Pa.	Haines	Peterson, Ga.
Brown, Ga.	Hall, Edwin Arthur	Pfeifer, Joseph L.
Bryson		
Bulwinkle	Hare	Pierce
Burdick	Harris, Ark.	Priest
Burgin	Harter	Rabaut
Byrne	Hendricks	Ramsay
Canfield	Hill, Colo.	Rankin, Miss.
Cannon, Mo.	Hoffman	Reed, N. Y.
Carlson	Holbrook	Rees, Kans.
Casey, Mass.	Hook	Rich
Clark	Hope	Richards
Claypool	Houston	Rivers
Cochran	Hull	Rizley
Cole, N. Y.	Jacobsen	Robertson, N. Dak.
Colmer	Jensen	
Connery	Johnson, Ind.	Robertson, Va.
Cooper	Johnson, Okla.	Rogers, Okla.
Courtney	Kee	Sabath
Cox	Kennedy, Martin J.	Sauthoff
Creal		Scanlon
Crowther	Kerr	Schulte
D'Alesandro	Kirwan	Shafer, Mich.
Davis, Ohio	Knutson	Short
Davis, Tenn.	Kocialkowski	Sikes
Dingell	Lambertson	Smith, Conn.
Disney	Larrabee	Smith, Pa.
Doughton	LeCompte	Snyder
Drewry	Lesinski	Sparkman
Duncan	Lewis	Springer
Durham	McArdle	Starnes, Ala.
Eberharter	McGehee	Steagall
Edmiston	McIntyre	Stefan
Eliot, Mass.	McKeough	Stevenson
Ellis	McMillan	Sullivan
Faddis	Manasco	Tarver
Fitzpatrick	Marcantonio	Taylor
Flannagan	May	Terry
Fogarty	Merritt	Thill
Folger	Michener	Thom
Forand	Mills, Ark.	Treadway
Ford, Miss.	Monroney	Vincent, Ky.

Vinson, Ga.	Weaver	Wickersham
Voorhis, Calif.	Weiss	Williams
Ward	Whelchel	Woodruff, Mich.
Wasielewski	Whittington	Zimmerman

NOT VOTING—30

Barden	Grant, Ala.	Osmers
Bates, Ky.	Gregory	Rankin, Mont.
Buckler, Minn.	Jenks, N. H.	Robinson, Utah
Burch	Landis	Romjue
Cartwright	Maas	Rutherford
Case, S. Dak.	Mitchell	Scott
Celler	O'Connor	Spence
Collins	O'Day	Thomas, N. J.
Doxey	O'Hara	Vreeland
Flaherty	O'Neal	White

So the amendment was agreed to.

The Clerk announced the following pairs:

On this vote:

Mr. O'Neal for, with Mr. Robinson of Utah against.

General pairs:

Mr. Doxey with Mr. Vreeland.
Mr. Burch with Mr. Landis.
Mr. Spence with Mr. Scott.
Mr. Grant of Alabama with Mr. Case of South Dakota.
Mr. Collins with Mr. Rutherford.
Mr. Barden with Mr. O'Hara.
Mr. Cartwright with Mr. Jenks of New Hampshire.
Mr. Gregory with Mr. Osmers.
Mr. Romjue with Mr. Thomas of New Jersey.
Mr. Mitchell with Mr. Maas.
Mr. Bates of Kentucky with Miss Rankin of Montana.
Mr. White with Mr. Buckler of Minnesota.
Mr. Celler with Mr. Flaherty.
Mr. O'Connor with Mrs. O'Day.

The result of the vote was announced as above recorded.

The SPEAKER. The question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed and read a third time, and was read the third time.

The SPEAKER. The question is on the passage of the bill.

Mr. CROWTHER. Mr. Speaker, I offer a motion to recommit.

The SPEAKER. Is the gentleman opposed to the bill?

Mr. CROWTHER. I am.

The SPEAKER. The Clerk will report the motion of the gentleman from New York.

The Clerk read as follows:

Mr. CROWTHER moves to recommit the bill H. R. 5417 to the Committee on Ways and Means with instructions to report the same back to the House with amendments designed to raise the amount of revenue lost by the elimination of section 111.

Mr. DOUGHTON. Mr. Speaker, I move the previous question on the motion to recommit.

The previous question was ordered.

The SPEAKER. The question is on the motion to recommit.

The motion was rejected.

The SPEAKER. The question is on the passage of the bill.

Mr. DOUGHTON. Mr. Speaker, on that I demand the yeas and nays.

The yeas and nays were ordered.

Mr. COOPER and Mr. MARTIN of Massachusetts rose.

The SPEAKER. The Chair will recognize first the gentleman from Tennessee, [Mr. COOPER]. He was first on his feet.

Mr. COOPER. Mr. Speaker, a parliamentary inquiry.

The SPEAKER. The gentleman will state it.

Mr. COOPER. The vote now to be taken is on the final passage of the bill. Is that correct?

The SPEAKER. The gentleman is correct.

The Chair recognizes the gentleman from Massachusetts.

Mr. MARTIN of Massachusetts. That was the inquiry I wanted to propound, Mr. Speaker.

The question was taken; and there were—yeas 370, nays 29, not voting 33, as follows:

[Roll No. 99]

YEAS—370

Allen, Ill.	Cullen	Hill, Colo.
Allen, La.	Cunningham	Hill, Wash.
Andersen, H. Carl	Curtis	Hinshaw
Anderson, Calif.	D'Alesandro	Hobbs
Anderson, N. Mex.	Davis, Ohio	Hoffman
Andresen, August H.	Davis, Tenn.	Holbrock
Andrews	Day	Holmes
Angell	Delaney	Hope
Arends	Dewey	Houston
Arnold	Dickstein	Howell
Baldwin	Dies	Hunter
Barnes	Ditter	Imhoff
Barry	Domengeaux	Izac
Bates, Mass.	Dondero	Jacobsen
Baumhart	Doughton	Jarman
Beam	Douglas	Jarrett
Beckworth	Downs	Jenkins, Ohio
Beiter	Drewry	Jennings
Bell	Duncan	Jensen
Bender	Durham	Johns
Bennett	Dworshak	Johnson, Calif.
Blackney	Eaton	Johnson, Ill.
Bland	Eberharter	Johnson, Luther A.
Bloom	Edmiston	Johnson, Lyndon B.
Boehne	Eliot, Mass.	Johnson, Okla.
Boggs	Elliott, Calif.	Johnson, W. Va.
Boland	Ellis	Jones
Bolton	Elston	Jonkman
Bonner	Engel	Kean
Boykin	Fellows	Kee
Bradley, Mich.	Fenton	Keefe
Bradley, Pa.	Fitzgerald	Kefauver
Brooks	Fitzpatrick	Kelley, Pa.
Brown, Ga.	Flannagan	Kelly, Ill.
Brown, Ohio	Flannery	Kennedy, Martin J.
Bryson	Fogarty	Kennedy, Michael J.
Buck	Folger	Keogh
Buckley, N. Y.	Forand	Kerr
Bulwinkle	Ford, Leland M.	Kilburn
Burgin	Ford, Miss.	Kilday
Butler	Ford, Thomas F.	Kinzer
Byrne	Fulmer	Kirwan
Byron	Gale	Kleberg
Camp	Gamble	Kocialkowski
Cannon, Fla.	Gathings	Kopplemann
Cannon, Mo.	Gavagan	Kramer
Capozzoli	Gearhart	Kunkel
Carlson	Gerlach	Lanham
Carter	Gibson	Larrabee
Casey, Mass.	Gifford	Lea
Chapman	Gilchrist	Leavy
Chenoweth	Gore	LeCompte
Chiperfield	Gossett	Lesinski
Clark	Graham	Lewis
Clason	Granger	Ludlow
Claypool	Grant, Ind.	Lynch
Clevenger	Green	McArdle
Cluett	Guyer, Kans.	McCormack
Cochran	Gwynne	McGehee
Coffee, Nebr.	Haines	McGranery
Coffee, Wash.	Hall, Leonard W.	McIntyre
Cole, Md.	Halleck	McLaughlin
Cole, N. Y.	Hancock	McLean
Colmer	Hare	McMillan
Connery	Harness	Maciejewski
Cooley	Harrington	Maciora
Cooper	Harris, Ark.	Magnuson
Copeland	Harris, Va.	Mahon
Costello	Hart	Manasco
Courtney	Harter	Mansfield
Cox	Hartley	Martin, Iowa
Cravens	Healey	Martin, Mass.
Crawford	Hébert	Mason
Creal	Heffernan	May
Crosser	Hendricks	Merritt
Culkin	Hess	Meyer, Md.
Michener	Rizley	Sumners, Tex.
Mills, La.	Robertson, N. Dak.	Sutphin
Monroney	Robertson, Va.	Sweeney
Moser	Rockefeller	Taber
Mott	Rodgers, Pa.	Talle
Mundt	Rogers, Mass.	Tarver
Murdock	Rogers, Okla.	Taylor
Myers, Pa.	Rolph	Tenerowicz
Nelson	Russell	Terry
Nichols	Sabath	Thill
Norrell	Sacks	Thom
Norton	Sanders	Thomas, Tex
O'Brien, Mich.	Sasscer	Thomason
O'Brien, N. Y.	Satterfield	Tibbott
O'Leary	Scanlon	Tolan
Oliver	Schaefer, Ill.	Traynor
O'Toole	Schuetz	Treadway
Pace	Schulte	Van Zandt
Paddock	Scrugham	Vincent, Ky.
Patman	Secrest	Vinson, Ga.
Patrick	Shafer, Mich.	Voorhis, Calif.
Patton	Shanley	Vorys, Ohio
Pearson	Shannon	Wadsworth
Peterson, Fla.	Sheppard	Walter
Peterson, Ga.	Sheridan	Ward
Pfeifer, Joseph L.	Short	Wasielewski
Pheiffer, William T.	Sikes	Weaver
Pierce	Simpson	Weiss
Plauché	Smith, Conn.	Welch
Ploeser	Smith, Maine	Wene
Plumley	Smith, Ohio	West
Poage	Smith, Pa.	Wheat
Powers	Smith, Va.	Whelchel
Priest	Smith, Wash.	Whittington
Rabaut	Smith, W. Va.	Wickersham
Ramsay	Snyder	Wigglesworth
Ramspeck	Somers, N. Y.	Williams
Randolph	South	Winter
Rankin, Miss.	Sparkman	Wolcott
Reece, Tenn.	Starnes, Ala.	Wolfenden, Pa.
Reed, Ill.	Steagall	Wolverton, N. J.
Rees, Kans.	Stearns, N. H.	Woodruff, Mich.
Rich	Stefan	Woodrum, Va.
Richards	Stevenson	Worley
Rivers	Stratton	Wright
	Sullivan	Young
	Sumner, Ill.	Youngdahl
		Zimmerman

NAYS—29

Bishop	Hall, Edwin Arthur	Marcantonio
Burdick	Heidinger	Mills, Ark.
Canfield	Hook	Murray
Crowther	Hull	Pittenger
Dingell	Johnson, Ind.	Reed, N. Y.
Dirksen	Knutson	Robsion, Ky.
Disney	Lambertson	Sauthoff
Gehrmann	McGregor	Springer
Geyer, Calif.	McKeough	Tinkham
Gillie		Wilson

NOT VOTING—33

Barden	Flaherty	O'Neal
Bates, Ky.	Grant, Ala.	Osmers
Boren	Gregory	Rankin, Mont.
Buckler, Minn.	Jackson	Robinson, Utah
Burch	Jenks, N. H.	Romjue
Cartwright	Landis	Rutherford
Case, S. Dak.	Maas	Scott
Celler	Mitchell	Spence
Collins	O'Connor	Thomas, N. J.
Doxey	O'Day	Vreeland
Fish	O'Hara	White

So the bill was passed.

The Clerk announced the following additional pairs:

On this vote:

Mr. Vreeland for, with Miss Rankin of Montana against.
Mr. O'Neal for, with Mr. Celler against.

Until further notice:

Mr. Doxey with Mr. Fish.
Mr. Burch with Mr. Landis.
Mr. Spence with Mr. Scott.
Mr. Grant of Alabama with Mr. Case of South Dakota.
Mr. Collins with Mr. Rutherford.
Mr. Barden with Mr. O'Hara.
Mr. Cartwright with Mr. Jenks of New Hampshire.
Mr. Gregory with Mr. Osmers.
Mr. Romjue with Mr. Thomas of New Jersey.
Mr. Mitchell with Mr. Maas.
Mr. White with Mr. Buckler of Minnesota.
Mr. Bates of Kentucky with Mr. Flaherty.
Mr. O'Connor with Mrs. O'Day.
Mr. Robinson of Utah with Mr. Jackson.

The result of the vote was announced as above recorded.

A motion to reconsider was laid on the table.

Mr. COOPER. Mr. Speaker, I ask unanimous consent that in enrolling the bill just passed the Clerk of the House be authorized to make changes in the section numbers and cross references thereto made necessary by the striking out of section 111.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

Mr. DOUGHTON. Mr. Speaker, I ask unanimous consent that all Members who have spoken on the bill may have 5 legislative days in which to extend their remarks.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

Mr. HILL of Washington. Mr. Speaker, my colleague, the gentleman from Washington [Mr. JACKSON], is unavoidably absent. Had he been present he would have voted for the so-called Buck amendment and would have voted for the bill.

EXTENSION OF ENLISTMENTS IN THE NAVY

Mr. SABATH, from the Committee on Rules, presented the following report on the bill S. 353 (H. Res. 284) to provide for the extension of enlistments in the Navy (Rept. No. 1121), which was read, and referred to the House Calendar and ordered printed:

Resolved, That immediately upon the adoption of this resolution it shall be in order to move that the House resolve itself into the Committee of the Whole House on the state of the Union for the consideration of S. 353, a bill to provide for the extension of enlistments in the Navy. That after general debate, which shall be confined to the bill and shall continue not to exceed 1 hour, to be equally divided and controlled by the chairman and the ranking minority member of the Committee on Naval Affairs, the bill shall be read for amendments under the 5-minute rule. At the conclusion of the reading of the bill for amendment, the Committee shall rise and report the same to the House with such amendments as may have been adopted, and the previous question shall be considered as ordered on the bill and amendments thereto to final passage without intervening motion except one motion to recommit.

REQUISITIONING OF PROPERTY REQUIRED FOR DEFENSE OF THE UNITED STATES

Mr. SABATH, from the Committee on Rules, presented the following report (H. Res. 287) on the bill S. 1579 to authorize the President of the United States to requisition property required for the defense of the United States (Rept. No. 1122), which was read, and referred to the House Calendar and ordered printed:

Resolved, That upon the adoption of this resolution it shall be in order to move that the House resolve itself into the Committee of the Whole House on the state of the Union for the consideration of the bill (S. 1579) to authorize the President of the United States to requisition property required for the defense of the United States. That after general debate, which shall be confined to the bill and continue not to exceed 2 hours, to be equally divided and controlled by the chairman and ranking minority member of the Committee on Military Affairs, the bill shall be read for amendment under the 5-minute rule. At the conclusion of the reading of the bill for amendment, the Committee shall rise and report the same to the House with such amendments as may have been adopted, and the previous question shall be considered as ordered on the bill and amendments thereto to final passage without intervening motion, except one motion to recommit.

EXTENSION OF REMARKS

Mr. McARDLE. Mr. Speaker, I ask unanimous consent to extend my own remarks in the RECORD and to include therein a letter from President Wilson, a letter from former Secretary of the Treasury, Mr. McAdoo, and a letter from Mr. Livingston Farrand of the American Red Cross.

The SPEAKER. Without objection it is so ordered.

There was no objection.

Mr. MANSFIELD. Mr. Speaker, I ask unanimous consent to revise and extend my remarks and to embrace therein a letter written by my colleague, the gentleman from Texas [Mr. KLEBERG], to the Department of Agriculture.

The SPEAKER. Without objection it is so ordered.

There was no objection.

Mr. ALLEN of Louisiana. Mr. Speaker, I ask unanimous consent to extend my remarks and to include therein certain pertinent paragraphs.

The SPEAKER. Without objection it is so ordered.

There was no objection.

Mr. KEEFE. Mr. Speaker, I ask unanimous consent to revise and extend the remarks I made today in the Committee of the Whole and to include as a part thereof the majority opinion in the case of Hoeper against the Wisconsin Tax Commission.

The SPEAKER. Without objection it is so ordered.

There was no objection.

Mr. TINKHAM. Mr. Speaker, with unanimous consent I desire to extend in the Appendix of the RECORD a recent editorial from the Saturday Evening Post.

The SPEAKER. Without objection it is so ordered.

There was no objection.

Mr. HOFFMAN. Mr. Speaker, I ask unanimous consent to extend my own remarks in the RECORD on three separate and distinct subjects and in two of those to include newspaper articles.

The SPEAKER. Is there objection to the request of the gentleman from Michigan, [Mr. HOFFMAN]?

There was no objection.

Mr. McGRANERY. Mr. Speaker, I ask unanimous consent to extend my own remarks in the RECORD and to include two short editorials.

The SPEAKER. Is there objection to the request of the gentleman from Pennsylvania [Mr. McGRANERY]?

There was no objection.

(Mr. O'BRIEN of Michigan asked and was given permission to extend his own remarks in the RECORD.)

PUNISHMENT OF PERSONS TRANSPORTING STOLEN CATTLE

Mr. WALTERS submitted a conference report and statement on the bill S. 1261, to provide for the punishment of persons transporting stolen cattle in interstate commerce, and for other purposes.

BILLS PRESENTED TO THE PRESIDENT

Mr. KIRWAN, from the Committee on Enrolled Bills, reported that that committee did on this day present to the President, for his approval, bills of the House of the following titles:

H. R. 1359. An act for the relief of Robert Edward Lee; and

H. R. 4671. An act to authorize a plant-protection force for naval shore establishments, and for other purposes.

THE LATE ALVA M. LUMPKIN

Mr. BRYSON. Mr. Speaker, I offer the following resolution, and ask for its immediate consideration.

The Clerk read the resolution (H. Res. 288), as follows:

Resolved, That the House has heard with profound sorrow of the death of Hon. ALVA M. LUMPKIN, a Senator of the United States from the State of South Carolina.

Resolved, That the Clerk communicate these resolutions to the Senate and transmit a copy thereof to the family of the deceased Senator.

Resolved, That as a further mark of respect to the memory of the deceased the House do now adjourn.

The resolution was agreed to

ADJOURNMENT

Accordingly (at 5 o'clock and 2 minutes p. m.) the House adjourned until tomorrow, Tuesday, August 5, 1941, at 12 o'clock noon.

COMMITTEE HEARINGS

COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE

There will be a meeting of the Committee on Interstate and Foreign Commerce at 10 a. m. Tuesday, August 5, 1941. Business to be considered: Hearings on H. R. 5343, daylight-saving time.

COMMITTEE ON PUBLIC BUILDINGS AND GROUNDS

There will be a meeting of the Committee on Public Buildings and Grounds at 10 a. m. on Tuesday, August 5, 1941, in the caucus room for consideration of House Resolution 209.

COMMITTEE ON THE JUDICIARY

The hearing scheduled for Wednesday, August 6, 1941, on H. R. 5234 has been postponed.

COMMITTEE ON INDIAN AFFAIRS

There will be a meeting of the Committee on Indian Affairs on Wednesday, August 6, 1941, at 10:30 a. m., for the consideration of H. R. 5261, H. R. 5359, S. 1151, and Calendar Wednesday bills.

EXECUTIVE COMMUNICATIONS, ETC.

Under clause 2 of rule XXIV, executive communications were taken from the Speaker's table and referred as follows:

809. A letter from the Secretary of War, transmitting a letter from the Chief of Engineers, United States Army, dated May 17, 1941,

submitting a report, together with accompanying papers and an illustration, on Sault Ste. Marie Power Plant, Michigan, prepared in collaboration with the Federal Power Commission (H. Doc. No. 339); to the Committee on Rivers and Harbors, and ordered to be printed, with an illustration.

810. A letter from the Secretary of War, transmitting a letter from the Chief of Engineers, United States Army, dated June 4, 1941, submitting a report, together with accompanying papers and illustrations, on reexamination of Delaware River between Philadelphia and the sea, with a view to modification of anchorages, requested by resolution of the Committee on Rivers and Harbors, House of Representatives, adopted February 11, 1941 (H. Doc. No. 340); to the Committee on Rivers and Harbors, and ordered to be printed, with two illustrations.

811. A letter from the Secretary of War, transmitting a letter from the Chief of Engineers, United States Army, dated June 5, 1941, submitting a report, together with accompanying papers, and an illustration, on reexamination of Columbia and Lower Willamette Rivers below Vancouver, Wash., and Portland, Oreg., with a view to improving the old mouth of the Cowlitz River, requested by resolution of the Committee on Rivers and Harbors, House of Representatives, adopted November 29, 1939 (H. Doc. No. 341); to the Committee on Rivers and Harbors and ordered to be printed, with an illustration.

812. A letter from the Secretary of War, transmitting a letter from the Chief of Engineers, United States Army, dated June 5, 1941, submitting a report, together with accompanying papers, on reexamination of St. Croix River, Minn., and Wis., with a view to improvement in the vicinity of Stillwater, Minn., requested by resolution of the Committee on Rivers and Harbors, House of Representatives, adopted March 16, 1939; to the Committee on Rivers and Harbors.

813. A letter from the Secretary of War, transmitting a letter from the Chief of Engineers, United States Army, dated June 5, 1941, submitting a report, together with accompanying papers, on a preliminary examination and survey of Delaware River and tributaries, New York, Pennsylvania, New Jersey, and Delaware, authorized by the Flood Control Acts approved June 22, 1936, and August 28, 1937, and the act approved March 3, 1936, and review of reports on Lehigh River, Pa., requested by resolution of the Committee on Flood Control, House of Representatives, adopted March 19, 1937; to the Committee on Flood Control.

REPORTS OF COMMITTEES ON PUBLIC BILLS AND RESOLUTIONS

Under clause 2 of rule XIII, reports of committees were delivered to the Clerk for printing and reference to the proper calendar, as follows:

Mr. JARMAN: Committee on Printing. House Resolution 285. Resolution authorizing the Committee on the Judiciary of the House of Representatives to have printed additional copies of the hearings held before a subcommittee of said committee on the bill (H. R. 4394) to amend the Bankruptcy Act and acts amendatory thereof; without amendment (Rept. No. 1118). Referred to the House Calendar.

Mr. ROBINSON of Utah: Committee on the Territories. H. R. 4795. A bill to amend the Hawaiian Homes Commission Act of 1920, as amended, by amending sections 203 (4), 208 (3), 209, 213, 215, 220, and 222 thereof and by adding thereto a new section to be numbered section 225, all relating to the powers, duties, and functions of the Hawaiian Homes Commission; with amendment (Rept. No. 1119). Referred to the Committee of the Whole House on the state of the Union.

Mr. MAY: Committee on Military Affairs. S. 1579. An act to authorize the President of the United States to requisition property required for the defense of the United States; with amendment (Rept. No. 1120). Referred to the Committee of the Whole House on the state of the Union.

Mr. SABATH: Committee on Rules. House Resolution 284. Resolution providing for the consideration of S. 353, a bill to provide for the extension of enlistments in the Navy; without amendment (Rept. No. 1121). Referred to the House Calendar.

Mr. SABATH: Committee on Rules. House Resolution 287. Resolution providing for the consideration of S. 1579, to authorize the President of the United States to requisition property required for the defense of the United States; without amendment (Rept. No. 1122). Referred to the House Calendar.

Mr. SUMNERS of Texas: Committee of conference on the disagreeing votes of the two Houses. S. 1261. An act to provide for the punishment of persons transporting stolen cattle in interstate commerce, and for other purposes (Rept. No. 1123). Referred to the Committee of the Whole House on the state of the Union.

PUBLIC BILLS AND RESOLUTIONS

Under clause 3 of rule XXII, public bills and resolutions were introduced and severally referred as follows:

By Mr. GATHINGS:

H. R. 5480. A bill to provide pay for officers in accordance with the rank and grade in which they were inducted and served in the land forces; to the Committee on Military Affairs.

By Mr. VAN ZANDT:

H. R. 5481. A bill to transfer Blair County, Pa., from the western judicial district of Pennsylvania to the middle judicial district of Pennsylvania; to the Committee on the Judiciary.

By Mr. VINSON of Georgia:

H. R. 5482. A bill to expedite shipbuilding, and for other purposes; to the Committee on Naval Affairs.

H. R. 5483. A bill to establish additional commissioned warrant officer grades in the Navy and Marine Corps, and for other purposes; to the Committee on Naval Affairs.

By Mr. DIMOND:

H. R. 5484. A bill for the relief of the Tlingit and Haida Indians of Alaska; to the Committee on Indian Affairs.

By Mr. O'BRIEN of Michigan:

H. R. 5485. A bill reclassifying the salaries of supervisors of the Postal Service, readjusting their salaries and compensation on an equitable basis; to the Committee on the Post Office and Post Roads.

By Mr. RANDOLPH:

H. R. 5486. A bill to provide for means of egress for buildings in the District of Columbia, and for other purposes; to the Committee on the District of Columbia.

By Mr. CONNERY:

H. R. 5487. A bill to promote the efficiency of the United States Navy; to the Committee on Naval Affairs.

By Mr. DINGELL:

H. R. 5488. A bill to equalize the tax burdens of husbands and wives in non-community-property States with those living in the community-property States; to the Committee on Ways and Means.

By Mr. MAGNUSON:

H. R. 5489. A bill to amend sections 116, 118, 126, 128, and 135 of the Judicial Code, as amended, to divide the ninth judicial circuit of the United States, and to create an eleventh judicial circuit; to the Committee on the Judiciary.

By Mr. PIERCE:

H. R. 5490. A bill to authorize the Secretary of the Interior to quit-claim to the States of Oregon and California, respectively, all the right, title, and interest of the United States in and to the lands of Goose Lake in Oregon and California; to the Committee on the Public Lands.

By Mr. COLE of Maryland:

H. J. Res. 228. Joint resolution consenting to an interstate oil compact to conserve oil and gas; to the Committee on Interstate and Foreign Commerce.

By Mr. CANNON of Florida:

H. Con. Res. 50. Concurrent resolution expressing the opinion of Congress as to the prosecution of defense construction projects under the Work Projects Administration; to the Committee on Appropriations.

By Mr. PATTON:

H. Res. 286. Resolution for the service of a notary public (Truman Ward); to the Committee on Accounts.

PRIVATE BILLS AND RESOLUTIONS

Under clause 1 of rule XXII, private bills and resolutions were introduced and severally referred as follows:

By Mr. ALLEN of Illinois:

H. R. 5491. A bill for the relief of Myrtle Murphy; to the Committee on Claims.

H. R. 5492. A bill for the relief of Lucille O. Geiken; to the Committee on Claims.

By Mr. CONNERY:

H. R. 5493. A bill for the relief of Peter Paul Bik; to the Committee on Naval Affairs.

By Mr. HARRIS of Arkansas:

H. R. 5494. A bill for the relief of R. H. Beggs; to the Committee on Claims.

By Mr. HEALEY:

H. R. 5495. A bill for the relief of John A. Lane; to the Committee on Military Affairs.

By Mr. TINKHAM:

H. R. 5496. A bill for the relief of Cecile McLaughlin; to the Committee on Claims.

PETITIONS, ETC.

Under clause 1 of rule XXII, petitions and papers were laid on the Clerk's desk and referred as follows:

1725. By Mr. CONNERY: Petition of the Lynn Fish and Game Protective Association, of Lynn, Mass., protesting against the passage of legislation preventing the use of game-bird feathers in the manufacturing of fishing flies or lures; to the Committee on Agriculture.

1726. By Mr. HARRINGTON: Petition of Mrs. W. S. Green and other citizens, of Sioux City, Iowa, supporting Senate bill 860; to the Committee on Military Affairs.

1727. By Mr. JARRETT: Petition of Mr. and Mrs. J. A. Hunter and other residents of West Middlesex, Pa., urging passage of Senate bill 860; to the Committee on Military Affairs.

1728. Also, petition of J. P. Hoffman and other residents of West Middlesex, Pa., urging passage of Senate bill 860; to the Committee on Military Affairs.

1729. Also, petition of Blanche Smith and other residents of Sharpsville, Pa., and Sharon, Pa.; to the Committee on Military Affairs.

1730. By Mr. KRAMER: Petition of the California Elks Association in convention assembled at Santa Cruz, Calif., petitioning the Congress of the United States and the Legislature of the State of California to enact such laws as may be necessary to outlaw the Communist Party as a political party in this State and Nation and to prohibit it from appearing upon any ballot in this State or in the United States of America; to the Committee on the Judiciary.

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77TH CONGRESS
1ST SESSION

H. R. 5417

IN THE SENATE OF THE UNITED STATES

AUGUST 5 (legislative day, JULY 28), 1941
Read twice and referred to the Committee on Finance

AN ACT

To provide revenue, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act, divided into titles and sections according to the following Table of Contents, may be cited as the "Revenue Act of 1941":

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Sec. 601. Tax on radio broadcasting stations and networks.

TITLE I—INDIVIDUAL AND CORPORATION INCOME TAXES

SEC. 101. SURTAX ON INDIVIDUALS.

Section 12 (b) of the Internal Revenue Code is amended to read as follows:

"(b) RATES OF SURTAX.—There shall be levied, collected, and paid for each taxable year upon the surtax net

income of every individual the surtax shown in the following table:

"If the surtax net income is:	The surtax shall be:
Not over $2,000	5% of the surtax net income.
Over $2,000 but not over $4,000	$100, plus 8% of excess over $2,000.
Over $4,000 but not over $6,000	$260, plus 11% of excess over $4,000.
Over $6,000 but not over $8,000	$480, plus 15% of excess over $6,000.
Over $8,000 but not over $10,000	$780, plus 19% of excess over $8,000.
Over $10,000 but not over $12,000	$1,160 plus 22% of excess over $10,000.
Over $12,000 but not over $14,000	$1,600, plus 25% of excess over $12,000.
Over $14,000 but not over $16,000	$2,100, plus 28% of excess over $14,000.
Over $16,000 but not over $18,000	$2,660, plus 31% of excess over $16,000.
Over $18,000 but not over $20,000	$3,280, plus 33% of excess over $18,000.
Over $20,000 but not over $22,000	$3,940, plus 36% of excess over $20,000.
Over $22,000 but not over $26,000	$4,660, plus 39% of excess over $22,000.
Over $26,000 but not over $32,000	$6,220, plus 42% of excess over $26,000.
Over $32,000 but not over $38,000	$8,740, plus 45% of excess over $32,000.
Over $38,000 but not over $44,000	$11,440, plus 48% of excess over $38,000.
Over $44,000 but not over $50,000	$14,320, plus 50% of excess over $44,000.
Over $50,000 but not over $60,000	$17,320, plus 53% of excess over $50,000.
Over $60,000 but not over $70,000	$22,620, plus 55% of excess over $60,000.
Over $70,000 but not over $80,000	$28,120, plus 57% of excess over $70,000.
Over $80,000 but not over $90,000	$33,820, plus 59% of excess over $80,000.
Over $90,000 but not over $100,000	$39,720, plus 61% of excess over $90,000.
Over $100,000 but not over $150,000.	$45,820, plus 62% of excess over $100,000.
Over $150,000 but not over $200,000.	$76,820, plus 63% of excess over $150,000.
Over $200,000 but not over $250,000.	$108,320, plus 64% of excess over $200,000.
Over $250,000 but not over $300,000.	$140,320, plus 66% of excess over $250,000.
Over $300,000 but not over $400,000.	$173,320, plus 68% of excess over $300,000.
Over $400,000 but not over $500,000.	$241,320, plus 70% of excess over $400,000.

"If the surtax net income is:	The surtax shall be:
Over $500,000 but not over $750,000.	$311,320, plus 71% of excess over $500,000.
Over $750,000 but not over $1,000,000.	$488,820, plus 72% of excess over $750,000.
Over $1,000,000 but not over $2,000,000.	$668,820, plus 73% of excess over $1,000,000.
Over $2,000,000 but not over $5,000,000.	$1,398,820, plus 74% of excess over $2,000,000.
Over $5,000,000.	$3,618,820, plus 75% of excess over $5,000,000."

SEC. 102. SURTAX ON CORPORATIONS.

(a) GENERAL RULE.—The Internal Revenue Code is amended by inserting after section 15 a new section to read as follows:

"SEC. 16. SURTAX ON CORPORATIONS.

"(a) CORPORATION SURTAX NET INCOME.—For the purposes of this chapter the term 'corporation surtax net income' means the net income minus the credit for dividends received provided in section 26 (b).

"(b) IMPOSITION OF TAX.—There shall be levied, collected, and paid for each taxable year upon the corporation surtax net income of every corporation (except a corporation subject to the tax imposed by section 231 (a) or Supplement Q) a surtax as follows:

"Upon corporation surtax net incomes not in excess of $25,000, 5 per centum of the amount thereof;

"Upon corporation surtax net incomes in excess of $25,000, $1,250, plus 6 per centum of the excess over $25,000."

(b) SURTAX ON MUTUAL INVESTMENT COMPANIES.—Supplement Q of the Internal Revenue Code (relating to mutual investment companies) is amended by inserting at the end thereof a new section to read as follows:

"SEC. 363. SURTAX ON MUTUAL INVESTMENT COMPANIES.

"(a) SUPPLEMENT Q SURTAX NET INCOME.—For the purposes of this chapter the term 'Supplement Q surtax net income' means the net income, computed without the net operating loss deduction provided in section 23 (s), minus the dividends paid during the taxable year increased by the consent dividends credit provided in section 28. For the purposes of this subsection the amount of dividends paid shall be computed in the same manner as provided in subsections (d), (e), (f), (g), (h), and (i) of section 27 for the purpose of the basic surtax credit provided in section 27.

"(b) IMPOSITION OF TAX.—There shall be levied, collected, and paid for each taxable year upon the Supplement Q surtax net income of every mutual investment company a surtax as follows:

"Upon Supplement Q surtax net incomes not in excess of $25,000, 5 per centum of the amount thereof;

"Upon Supplement Q surtax net incomes in excess of $25,000, $1,250, plus 6 per centum of the excess over $25,000."

(c) SURTAX ON BANKS.—Section 104 (b) of the

Internal Revenue Code (relating to certain banks and trust companies) is amended to read as follows:

"(b) RATE OF TAX.—Banks shall be subject to tax under section 13 or section 14 (b), and under section 16."

(d) SURTAX ON RESIDENT FOREIGN CORPORATIONS.—Section 231 (b) of the Internal Revenue Code (relating to certain foreign corporations) is amended to read as follows:

"(b) RESIDENT CORPORATIONS.—A foreign corporation engaged in trade or business within the United States or having an office or place of business therein shall be taxable as provided in section 14 (c) (1) and section 16."

(e) SURTAX ON CORPORATIONS ENTITLED TO THE BENEFITS OF SECTION 251.—Section 251 (c) (1) of the Internal Revenue Code (relating to the tax on corporations entitled to the benefits of section 251) is amended to read as follows:

"(1) CORPORATION TAX.—A domestic corporation entitled to the benefits of this section shall be subject to tax under section 13 or section 14 (b), and under section 16."

(f) SURTAX ON CHINA TRADE ACT CORPORATIONS.—

(1) SURTAX.—Section 261 (a) of the Internal Revenue Code (relating to the tax on China Trade Act corporations) is amended to read as follows:

"(a) CORPORATION TAX.—A corporation organized under the China Trade Act, 1922, 42 Stat. 849 (U. S. C., 1934 ed., title 15, chap. 4), shall be subject to tax under section 13 or section 14 (b), and under section 16."

(2) CREDIT OF CHINA TRADE ACT CORPORATIONS.—Section 262 (a) of the Internal Revenue Code (relating to credit against net income of China Trade Act corporations) is amended by striking out "sections 13, 14, and 600" and inserting in lieu thereof "sections 13, 14, 16, and 600"; and by striking out "section 13 or 14" wherever occurring therein and inserting in lieu thereof "section 13, 14, or 16".

SEC. 103. INCOME DEFENSE TAX MADE PERMANENT.

(a) The heading of section 15 of the Internal Revenue Code is amended to read as follows: **"SEC. 15. DEFENSE TAX."**

(b) The first sentence of section 15 of the Internal Revenue Code is amended to read as follows:

"In the case of any taxpayer, the amount of tax under this chapter for any taxable year beginning after December 31, 1940, shall be the tax computed without regard to this section, increased by 10 per centum; except that in the case of a corporation the increase shall be limited to 10 per centum of the tax computed without regard to sections 16 and 363 and without regard to the amendments made by section 101 (a), (b), and (c) of the Second Revenue Act of 1940."

SEC. 104. TAX ON NONRESIDENT ALIEN INDIVIDUALS.

(a) TAX IN GENERAL.—Section 211 (a) (1) (A) of the Internal Revenue Code (relating to tax on nonresident alien individuals not engaged in trade or business within the United States and not having an office or place of business therein) is amended by striking out "15 per centum" and inserting in lieu thereof "25 per centum".

(b) AGGREGATE RECEIPTS MORE THAN $23,800.—Section 211 (a) (2) of the Internal Revenue Code is amended to read as follows:

"(2) AGGREGATE MORE THAN $23,800.—The tax imposed by paragraph (1) shall not apply to any individual if the aggregate amount received during the taxable year from the sources therein specified is more than $23,800."

(c) TAX WHERE GROSS INCOME OF MORE THAN $23,800.—Section 211 (c) of the Internal Revenue Code (relating to tax on certain nonresident alien individuals) is amended by striking out "$24,000" wherever occurring therein and inserting in lieu thereof "$23,800"; and by striking out "15 per centum" and inserting in lieu thereof "25 per centum".

SEC. 105. TAX ON FOREIGN CORPORATIONS.

Section 231 (a) of the Internal Revenue Code (relating to tax on nonresident foreign corporations) is amended by

striking out "15 per centum" and inserting in lieu thereof "25 per centum".

SEC. 106. WITHHOLDING OF TAX AT SOURCE.

(a) Sections 143 (a) and (b) and 144 of the Internal Revenue Code are amended by striking out "15 per centum" wherever occurring therein and inserting in lieu thereof "27½ per centum".

(b) Section 143 (h) of the Internal Revenue Code is repealed.

(c) Subsections (a) and (b) of this section shall apply only with respect to the period beginning with the tenth day after the date of the enactment of this Act.

SEC. 107. TREATY OBLIGATIONS.

No amendment made by this title shall apply in any case where its application would be contrary to any treaty obligation of the United States.

SEC. 108. REDUCTION IN PURSUANCE OF TREATIES OF RATES OF TAX AND WITHHOLDING ON NON-RESIDENT ALIEN INDIVIDUALS RESIDENT IN, AND CORPORATIONS ORGANIZED UNDER LAWS OF, WESTERN HEMISPHERE COUNTRIES.

(a) Section 143 (a) (1) (relating to withholding of tax on tax-free covenant bonds); section 143 (b) (relating to withholding of tax on dividends, rents, etc.); section 144

(relating to payment of corporation income tax at source); section 211 (a) (1) (relating to tax on nonresident alien individuals); and section 231 (a) (1) (relating to tax on nonresident foreign corporations) of the Internal Revenue Code are amended by striking out "a contiguous country" and inserting in lieu thereof "any country in North, Central, or South America, or in the West Indies, or of Newfoundland".

(b) Section 211 (a) (3) of the Internal Revenue Code is amended to read as follows:

"(3) RESIDENTS OF CERTAIN COUNTRIES.—The provisions of paragraph (2) shall not apply to a resident of any country in North, Central, or South America, or in the West Indies, or of Newfoundland, so long as there is in effect with such country a treaty which provides otherwise."

(c) Section 211 (c) (4) of the Internal Revenue Code is amended to read as follows:

"(4) This subsection shall not apply to a resident of any country in North, Central, or South America, or in the West Indies, or of Newfoundland, so long as there is in effect with such country a treaty which provides otherwise."

SEC. 109. DEFENSE TAX ON PERSONAL HOLDING COMPANIES AND TRANSFERS TO AVOID INCOME TAX MADE PERMANENT.

(a) PERSONAL HOLDING COMPANIES.—Section 500 (b) of the Internal Revenue Code is amended by striking out "and before January 1, 1945," and by striking out in the heading "FOR FIVE YEARS".

(b) TRANSFERS TO AVOID INCOME TAX.—Section 1250 (b) of the Internal Revenue Code is amended by striking out "and before July 1, 1945" and by striking out in the heading "FOR FIVE YEARS".

SEC. 110. CREDIT FOR DEPENDENTS.

Section 25 (b) (2) of the Internal Revenue Code (relating to credit for dependents) is amended to read as follows:

"(2) CREDIT FOR DEPENDENTS.—

"(A) Allowance in General.—$400 for each person (other than husband or wife) dependent upon and receiving his chief support from the taxpayer if such dependent person is under eighteen years of age or is incapable of self-support because mentally or physically defective.

"(B) Exception for Certain Heads of Families.—If the taxpayer would not occupy the status

of head of a family except by reason of there being one or more dependents for whom he would be entitled to credit under subparagraph (A), the credit under such subparagraph shall be disallowed with respect to one of such dependents."

SEC. 111. NONINTEREST-BEARING OBLIGATIONS ISSUED AT DISCOUNT.

Section 42 of the Internal Revenue Code (relating to period in which items of gross income are included) is amended by inserting before the first sentence thereof "(a) GENERAL RULE.—", and by inserting at the end of such section a new subsection to read as follows:

"(b) NONINTEREST-BEARING OBLIGATIONS ISSUED AT DISCOUNT.—If, in the case of a taxpayer owning any non-interest-bearing obligation issued at a discount and redeemable for fixed amounts increasing at stated intervals, the increase in the redemption price of such obligation occurring in such taxable year does not (under the method of accounting used in computing his net income) constitute income to him in such year, such taxpayer may, at his election made in his return for any taxable year beginning after December 31, 1940, treat such increase as income received in such taxable year. If any such election is made with respect to any such obligation, it shall apply also to all such obligations owned by

the taxpayer at the beginning of the first taxable year to which it applies and to all such obligations thereafter acquired by him and shall be binding for all subsequent taxable years, unless upon application by the taxpayer the Commissioner permits him, subject to such conditions as the Commissioner deems necessary, to change to a different method. In the case of any such obligations owned by the taxpayer at the beginning of the first taxable year to which his election applies, the increase in the redemption price of such obligations occurring between the date of acquisition and the first day of such taxable year shall also be treated as income received in such taxable year."

SEC. 112. INFORMATION RETURNS WITH RESPECT TO FEDERAL OBLIGATIONS.

(a) Section 147 (d) of the Internal Revenue Code (exempting interest on obligations of the United States from information requirement) is repealed.

(b) Section 147 (b) of the Internal Revenue Code is amended by striking out "and (2)" and inserting in lieu thereof "(2) in the case of payments of interest upon obligations of the United States or any agency or instrumentality thereof, and (3)".

(c) Subsections (a) and (b) of this section shall take effect upon the day after the date of the enactment of this Act.

SEC. 113. TAXABLE YEARS TO WHICH AMENDMENTS APPLICABLE.

The amendments made by this title (except sections 106 and 112) shall be applicable only with respect to taxable years beginning after December 31, 1940.

TITLE II—EXCESS PROFITS TAX

SEC. 201. EXCESS PROFITS TAX RATES AND CREDITS.

(a) RATES.—Section 710 (a) of the Internal Revenue Code is amended to read as follows:

"(a) IMPOSITION.—

"(1) GENERAL RULE.—There shall be levied, collected, and paid, for each taxable year, on the adjusted excess profits net income, as defined in subsection (b), of every corporation (except a corporation exempt under section 727) the tax shown in the following table:

"If the adjusted excess profits net income is:	The tax shall be:
Not over $20,000	35% of the adjusted excess profits net income.
Over $20,000, but not over $50,000	$7,000, plus 40% of excess over $20,000.
Over $50,000, but not over $100,000	$19,000, plus 45% of excess over $50,000.
Over $100,000, but not over $250,000.	$41,500, plus 50% of excess over $100,000.
Over $250,000, but not over $500,000.	$116,500, plus 55% of excess over $250,000.
Over $500,000	$254,000, plus 60% of excess over $500,000.

"(2) SPECIAL RULE IN CERTAIN CASES WHERE INVESTED CAPITAL CREDIT IS USED.—In the case of a taxpayer entitled to have its excess profits credit com-

puted under either section 713 (income credit) or section 714 (invested capital credit), if the use of the credit under section 714 is more advantageous to the taxpayer, the tax imposed by this section shall be the sum of—

"(A) an amount determined under paragraph (1) of this subsection with the use of the credit provided in section 714, plus—

"(B) 10 per centum of the amount, if any, by which—

"(i) the adjusted excess profits net income computed with the use of the credit under section 713 and with the excess profits credit carryover which would be available for the taxable year if the excess profits credit applicable to each of the preceding taxable years for which tax is imposed by this subchapter had been the excess profits credit computed under section 713, exceeds

"(ii) the adjusted excess profits net income computed with the use of the credit under section 714.

"(3) LIMITATION ON APPLICATION OF SPECIAL RULE.—If the tax under paragraph (2) is greater than the amount determined, with the use of the credit pro-

vided in section 713, under paragraph (1) of this subsection, the tax shall be the amount so determined under paragraph (1).

"(4) APPLICATION OF RATES IN CASE OF CERTAIN EXCHANGES.—If the taxpayer's highest bracket amount for the taxable year computed under section 752 (relating to certain exchanges) is less than $500,000, then in the application of the table in paragraph (1) of this subsection to such taxpayer, in lieu of each amount, other than the percentages, specified in such table, there shall be substituted an amount which bears the same ratio to the amount so specified as the highest bracket amount so computed bears to $500,000."

(b) EXCESS PROFITS CREDIT—BASED ON INVESTED CAPITAL.—Section 714 of the Internal Revenue Code, as amended, is amended to read as follows:

"SEC. 714. EXCESS PROFITS CREDIT—BASED ON INVESTED CAPITAL.

"The excess profits credit, for any taxable year, computed under this section, shall be the amount shown in the following table:

"If the invested capital for the taxable year, determined under section 715, is:	**The credit shall be:**
Not over $5,000,000	8% of the invested capital.
Over $5,000,000	$400,000, plus 7% of the excess over $5,000,000."

SEC. 202. DISCLAIMER OF CREDIT.

(a) Section 712 (c) of the Internal Revenue Code (relating to disclaimers of excess-profits credit) is amended to read as follows:

"(c) EFFECT OF DISCLAIMER OF CREDIT.—If the taxpayer states in its return for the taxable year under this subchapter that it disclaims the use of the credit computed under section 714, such credit shall not, for the purposes of the internal revenue laws, be applicable to the computation of the tax under this subchapter for such taxable year."

(b) The last sentence of section 729 (b) (1) is amended to read as follows: "If the taxpayer states in such return that it disclaims the use of the credit computed under section 714 in the computation of the tax under this subchapter for the taxable year, the computation and information based on such credit may be omitted from the return."

(c) Section 741 (b) of the Internal Revenue Code (relating to disclaimers of excess-profits credit) is amended to read as follows:

"(b) EFFECT OF DISCLAIMER OF CREDIT.—If the taxpayer states in its return for the taxable year under this subchapter that it disclaims the use of the credit computed under section 714, such credit shall not, for the purposes of the internal revenue laws, be applicable to the computation of the tax under this subchapter for such taxable year."

SEC. 203. CASES IN WHICH NO RETURN REQUIRED.

Section 729 (b) (2) of the Internal Revenue Code is amended to read as follows:

"(2) NO RETURN REQUIRED.—Notwithstanding subsection (a), no return under section 52 (a) shall be required to be filed under this subchapter:

"(A) By any taxpayer entitled to have its excess-profits credit computed under either section 713 or section 714 for any taxable year for which its excess-profits net income, computed with the adjustments provided in section 711 (a) (1) and placed on an annual basis as provided in section 711 (a) (3), is not greater than $5,000; or

"(B) By any taxpayer not entitled to have its excess-profits credit computed under section 713 for any taxable year for which its excess-profits net income, computed with the adjustments provided in section 711 (a) (2) and placed on an annual basis as provided in section 711 (a) (3), is not greater than $5,000."

SEC. 204. DEDUCTION OF EXCESS-PROFITS TAX.

(a) AMENDMENT OF SECTION 23 (c).—Section 23 (c) of the Internal Revenue Code (relating to the deduction of taxes in computing net income) is amended to read as follows:

"(c) TAXES GENERALLY.—

"(1) ALLOWANCE IN GENERAL.—Taxes paid or accrued within the taxable year, except—

"(A) Federal income taxes;

"(B) war-profits and excess-profits taxes imposed by Title II of the Revenue Act of 1917, Title III of the Revenue Act of 1918, Title III of the Revenue Act of 1921, section 216 of the National Industrial Recovery Act, or section 702 of the Revenue Act of 1934, or by any such provisions as amended or supplemented;

"(C) income, war-profits, and excess-profits taxes imposed by the authority of any foreign country or possession of the United States; but this deduction shall be allowed in the case of a taxpayer who does not signify in his return his desire to have to any extent the benefits of section 131 (relating to credit for taxes of foreign countries and possessions of the United States);

"(D) estate, inheritance, legacy, succession, and gift taxes; and

"(E) taxes assessed against local benefits of a kind tending to increase the value of the property assessed; but this paragraph shall not exclude the allowance as a deduction of so much of such taxes

as is properly allocable to maintenance or interest charges.

"(2) EXCESS-PROFITS TAX UNDER CHAPTER 2E—SPECIAL RULES.—For the purposes of this subsection, in the case of the excess-profits tax imposed by Subchapter E of Chapter 2—

"(A) The deduction shall be limited to the tax imposed for the taxable year, but any portion of such tax paid after the taxable year shall be considered as having been paid within the taxable year;

"(B) No reduction in such tax shall be made by reason of the credit for income, war-profits, or excess-profits taxes paid to any foreign country or possession of the United States;

"(C) Such tax shall be computed without regard to the adjustments provided in section 734; and

"(D) Such tax, in the case of a consolidated return under section 730, shall be allocated to the members of the affiliated group under regulations prescribed by the Commissioner, with the approval of the Secretary."

(b) AMENDMENT OF SECTION 102 (d).—Section 102 (d) (1) (A) of the Internal Revenue Code (relating to the deduction of taxes in computing section 102 net income) is amended to read as follows:

"(A) Taxes.—Federal income, war-profits, and excess-profits taxes (other than the tax imposed by Subchapter E of Chapter 2 for a taxable year beginning after December 31, 1940) paid or accrued during the taxable year, to the extent not allowed as a deduction by section 23, but not including the tax imposed by this section or a corresponding section of a prior income-tax law."

(c) COMPUTATION OF EXCESS-PROFITS NET INCOME.—

(1) TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1940.—

(A) Section 711 (a) (1) (A) (relating to adjustment for income taxes in computing excess-profits net income under income credit) is amended to read as follows:

"(A) Income Taxes.—In computing such normal-tax net income the deduction for the tax imposed by this subchapter shall not be allowed;".

(B) Section 711 (a) (2) (C) (relating to adjustment for income taxes in computing excess-profits net income under invested capital credit) is amended to read as follows:

"(C) Income Taxes.—In computing such nor-

mal-tax net income the deduction for the tax imposed by this subchapter shall not be allowed;".

(2) TAXABLE YEARS IN THE BASE PERIOD.—Section 711 (b) (1) (A) (relating to adjustment for income taxes for taxable years in the base period) is repealed.

(d) COMPUTATION OF CHARITABLE, ETC., DEDUCTIONS.—

(1) Section 711 (a) (1) of the Internal Revenue Code is amended by inserting at the end thereof the following new subparagraph:

"(G) Computation of Charitable, Etc., Deductions.—In determining any deduction the amount of which is limited to a percentage of the taxpayer's net income (or net income from the property), such net income (or net income from the property) shall be computed without regard to the deduction on account of the tax imposed by this subchapter."

(2) Section 711 (a) (2) of the Internal Revenue Code is amended by adding at the end thereof the following new subparagraph:

"(I) Computation of Charitable, Etc., Deductions.—In determining any deduction the amount of which is limited to a percentage of the taxpayer's

net income (or net income from the property), such net income (or net income from the property) shall be computed without regard to the deduction on account of the tax imposed by this subchapter."

(e) EXCESS-PROFITS CREDIT CARRY-OVER.—Section 710 (c) (1) (defining the unused excess-profits credit) is amended by adding at the end thereof a new sentence to read as follows: "For such purpose the excess-profits credit and the excess-profits net income for any taxable year beginning in 1940 shall be computed under the law applicable to taxable years beginning in 1941.".

(f) EQUITY INVESTED CAPITAL.—Section 718 (c) (3) (relating to the computation of earnings and profits for invested capital purposes) is amended by adding after the word "subchapter" the words "or Chapter 1".

(g) ADJUSTMENT OF ABNORMAL BASE PERIOD NET INCOME.—Section 722 (c) (placing a limit on the amount of relief afforded under section 722) is amended by adding at the end thereof a new sentence to read as follows: "For the purposes of this subsection and subsection (d) the taxpayer's normal-tax net income shall be computed without deduction of the tax imposed by this subchapter.".

(h) NONDEDUCTIBILITY OF EXCESS PROFITS TAX IN COMPUTATION OF DECLARED VALUE EXCESS PROFITS TAX.—Section 602 of the Internal Revenue Code is amended

by striking out "computed without the deduction of the tax imposed by section 600" and inserting in lieu thereof "computed without the deduction of the tax imposed by section 600 or the tax imposed by Subchapter E of Chapter 2.

(i) ADJUSTED DECLARED VALUE.—

(1) Section 1202 (b) (1) (C) of the Internal Revenue Code is amended to read as follows:

"(C) its net income, computed without the deduction of the tax imposed by Subchapter E of Chapter 2,".

(2) Section 1202 (b) (1) (iii) is amended to read as follows:

"(iii) the excess of the deductions allowable for income tax purposes (not including the deduction for the tax imposed by Subchapter E of Chapter 2) over its gross income."

SEC. 205. NEW CAPITAL.

Section 718 (a) of the Internal Revenue Code is amended by striking out "and" at the end of paragraph (4); by striking out the period at the end of paragraph (5) and inserting in lieu thereof a semicolon and the word "and", and by inserting at the end thereof the following:

"(6) NEW CAPITAL.—An amount equal to 25 per centum of the new capital for such day. The term 'new capital' for any day means so much of the amounts

of money or property includible for such day under paragraphs (1) and (2) as was previously paid in during a taxable year beginning after December 31, 1940, and so much of the distributions in stock includible for such day under paragraph (3) as was previously made during a taxable year beginning after December 31, 1940, subject to the following limitations:

"(A) There shall not be included money or property paid in by a corporation in an exchange to which section 112 (b) (3), (4), or (5), or so much of section 112 (c), (d), or (e) as refers to section 112 (b) (3), (4), or (5) is applicable, or would have been applicable if the term 'control' had been defined in section 112 (h) to mean the ownership of stock possessing more than 50 per centum of the total combined voting power of all classes of stock entitled to vote or more than 50 per centum of the total value of shares of all classes of stock.

"(B) There shall not be included money or property paid in to the taxpayer by a transferor corporation if immediately after such transaction the transferor and the taxpayer are members of the same controlled group. As used in this subparagraph and subparagraph (C), a controlled group means one or

more chains of corporations connected through stock ownership with a common parent corporation if (i) more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock, of each of the corporations (except the common parent corporation) is owned directly by one or more of the other corporations, and (ii) the common parent corporation owns directly more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock, of at least one of the other corporations.

"(C) There shall not be included a distribution in stock described in paragraph (3) made to another corporation, if immediately after the distribution the taxpayer and the distributee are members of the same controlled group.

"(D) Increase in Inadmissible Assets.—The new capital for any day of the taxable year, computed without the application of subparagraph (E), shall be reduced by the excess, if any, of the amount computed under section 720 (b) with respect to inad-

missible assets held on such day, over the amount computed under section 720 (b) with respect to inadmissible assets held on the first day of the taxpayer's first taxable year beginning after December 31, 1940. For the purposes of this subparagraph, in determining whether obligations which are described in section 22 (b) (4) any part of the interest from which is excludible from gross income or allowable as a credit against net income are to be treated as admissible or inadmissible assets, such obligations shall be treated in the same manner as they are treated for the taxable year for which tax under this subchapter is being computed.

"(E) Maximum New Capital Allowable.—The new capital for any day of the taxable year shall not be more than the amount, if any, by which—

"(i) the sum of the equity invested capital (computed without regard to this paragraph) and the borrowed capital (as defined in section 719 (a)) of the taxpayer as of such day, reduced by the amount of money or property paid in which is excluded by reason of the limitation of subparagraph (A) or (B) of this paragraph, exceeds

"(ii) the sum of such equity invested capital and borrowed capital as of the beginning of the first day of such taxpayer's first taxable year beginning after December 31, 1940, reduced by the amount, if any, by which the accumulated earnings and profits as of such first day of such first taxable year exceed the accumulated earnings and profits (computed without regard to distributions made in taxable years beginning after December 31, 1940) as of the beginning of the first day of the taxable year for which the tax under this subchapter is being computed."

SEC. 206. CORPORATIONS ENGAGED IN MINING STRATEGIC METALS.

Section 731 of the Internal Revenue Code (exempting from excess profits tax income derived from mining certain metals) shall not apply with respect to any taxable year beginning after December 31, 1940.

SEC. 207. TAXABLE YEARS TO WHICH AMENDMENTS APPLICABLE.

The amendments made by this title shall be applicable only with respect to taxable years beginning after December 31, 1940.

TITLE III—CAPITAL STOCK TAX AND DECLARED VALUE EXCESS-PROFITS TAX

SEC. 301. CAPITAL STOCK TAX.

(a) INCREASE IN RATE OF TAX.—Section 1200 (a) and (b) of the Internal Revenue Code (relating to rate of capital stock tax) is amended by striking out "$1" and inserting in lieu thereof "$1.25".

(b) DEFENSE TAX RATE.—Section 1200 (c) of the Internal Revenue Code is repealed.

(c) EFFECTIVE DATE.—Subsections (a) and (b) shall be effective only with respect to the year ending June 30, 1941, and succeeding years.

SEC. 302. DECLARED VALUE EXCESS-PROFITS TAX—DEFENSE TAX MADE PERMANENT.

Section 600 (b) of the Internal Revenue Code is amended to read as follows:

"(b) DEFENSE TAX.—In the case of any taxpayer, the amount of tax payable under this section for any income-tax taxable year ending after June 30, 1940, shall be 10 per centum greater than the amount of tax which would be payable if computed without regard to this subsection."

TITLE IV—ESTATE AND GIFT TAXES

SEC. 401. ESTATE TAX RATES.

(a) RATES.—Section 935 (b) of the Internal Revenue Code is amended to read as follows:

"(b) The tentative tax referred to in subsection (a) (1) of this section shall be the tentative tax shown in the following table:

"If the net estate is:	The tentative tax shall be:
Not over $5,000	3% of the net estate.
Over $5,000 but not over $10,000	$150, plus 7% of excess over $5,000.
Over $10,000 but not over $20,000	$500, plus 10% of excess over $10,000.
Over $20,000 but not over $30,000	$1,500, plus 13% of excess over $20,000.
Over $30,000 but not over $40,000	$2,800, plus 16% of excess over $30,000.
Over $40,000 but not over $50,000	$4,400, plus 20% of excess over $40,000.
Over $50,000 but not over $60,000	$6,400, plus 23% of excess over $50,000.
Over $60,000 but not over $100,000.	$8,700, plus 25% of excess over $60,000.
Over $100,000 but not over $250,000.	$18,700, plus 27% of excess over $100,000.
Over $250,000 but not over $500,000.	$59,200, plus 29% of excess over $250,000.
Over $500,000 but not over $750,000.	$131,700, plus 32% of excess over $500,000.
Over $750,000 but not over $1,000,000.	$211,700, plus 34% of excess over $750,000.
Over $1,000,000 but not over $1,250,000.	$296,700, plus 36% of excess over $1,000,000.
Over $1,250,000 but not over $1,500,000.	$386,700, plus 38% of excess over $1,250,000.
Over $1,500,000 but not over $2,000,000.	$481,700, plus 41% of excess over $1,500,000.
Over $2,000,000 but not over $2,500,000.	$686,700, plus 45% of excess over $2,000,000.
Over $2,500,000 but not over $3,000,000.	$911,700, plus 48% of excess over $2,500,000.
Over $3,000,000 but not over $3,500,000.	$1,151,700, plus 51% of excess over $3,000,000.
Over $3,500,000 but not over $4,000,000.	$1,406,700, plus 54% of excess over $3,500,000.
Over $4,000,000 but not over $5,000,000.	$1,676,700, plus 58% of excess over $4,000,000.
Over $5,000,000 but not over $6,000,000.	$2,256,700, plus 61% of excess over $5,000,000.
Over $6,000,000 but not over $7,000,000.	$2,866,700, plus 64% of excess over $6,000,000.
Over $7,000,000 but not over $8,000,000.	$3,506,700, plus 66% of excess over $7,000,000.
Over $8,000,000 but not over $10,000,000.	$4,166,700, plus 69% of excess over $8,000,000.
Over $10,000,000	$5,546,700, plus 70% of excess over $10,000,000.

(b) EFFECTIVE DATE OF AMENDMENT.—The amendment made by subsection (a) shall be applicable only to estates of decedents dying after the date of the enactment of this Act.

(c) DEFENSE TAX MADE PERMANENT.—Subchapter C of Chapter 3 of the Internal Revenue Code is amended by striking out "and before the expiration of five years after such date"; by striking out in the heading of the subchapter "**FOR FIVE YEARS**"; and by striking out in the heading of section 951 "**FOR FIVE YEARS**".

SEC. 402. GIFT TAX RATES.

(a) RATES.—The Rate Schedule of section 1001 of the Internal Revenue Code is amended to read as follows:

"If the net gifts are:	**The tax shall be:**
Not over $5,000	2¼% of the net gifts.
Over $5,000 but not over $10,000	$112.50, plus 5¼% of excess over $5,000.
Over $10,000 but not over $20,000	$375, plus 7½% of excess over $10,000.
Over $20,000 but not over $30,000	$1,125, plus 9¾% of excess over $20,000.
Over $30,000 but not over $40,000	$2,100, plus 12% of excess over $30,000.
Over $40,000 but not over $50,000	$3,300, plus 15% of excess over $40,000.
Over $50,000 but not over $60,000	$4,800, plus 17¼% of excess over $50,000.
Over $60,000 but not over $100,000	$6,525, plus 18¾% of excess over $60,000.
Over $100,000 but not over $250,000.	$14,025, plus 20¼% of excess over $100,000.
Over $250,000 but not over $500,000.	$44,400, plus 21¾% of excess over $250,000.
Over $500,000 but not over $750,000.	$98,775, plus 24% of excess over $500,000.
Over $750,000 but not over $1,000,000.	$158,775, plus 25½% of excess over $750,000.

"If the net gifts are:				The tax shall be:
Over $1,000,000	but	not	over $1,250,000.	$222,525, plus 27% of excess over $1,000,000.
Over $1,250,000	but	not	over $1,500,000.	$290,025, plus 28½% of excess over $1,250,000.
Over $1,500,000	but	not	over $2,000,000.	$361,275, plus 30¾% of excess over $1,500,000.
Over $2,000,000	but	not	over $2,500,000.	$515,025, plus 33¾% of excess over $2,000,000.
Over $2,500,000	but	not	over $3,000,000.	$683,775, plus 36% of excess over $2,500,000.
Over $3,000,000	but	not	over $3,500,000.	$863,775, plus 38¼% of excess over $3,000,000.
Over $3,500,000	but	not	over $4,000,000.	$1,055,025, plus 40½% of excess over $3,500,000.
Over $4,000,000	but	not	over $5,000,000.	$1,257,525, plus 43½% of excess over $4,000,000.
Over $5,000,000	but	not	over $6,000,000.	$1,692,525, plus 45¾% of excess over $5,000,000.
Over $6,000,000	but	not	over $7,000,000.	$2,150,025, plus 48% of excess over $6,000,000.
Over $7,000,000	but	not	over $8,000,000.	$2,630,025, plus 49½% of excess over $7,000,000.
Over $8,000,000	but	not	over $10,000,000.	$3,125,025, plus 51¾% of excess over $8,000,000.
Over $10,000,000				$4,160,025, plus 52½% of excess over $10,000,000."

(b) YEARS TO WHICH AMENDMENT APPLICABLE.—The amendment made by subsection (a) shall be applied in computing the tax for the calendar year 1942 and each calendar year thereafter (but not the tax for the calendar year 1941 or a previous calendar year), and such amendment shall be applied in all computations in respect of the calendar year 1941 and previous calendar years for the purpose of computing the tax for the calendar year 1942 and any calendar year thereafter.

(c) DEFENSE TAX RATES MADE PERMANENT.—Section 1001 (d) of the Internal Revenue Code is amended by

striking out "1941 to 1945, both inclusive," and inserting in lieu thereof "after 1940"; and by striking out in the heading "for 1940–1945".

TITLE V—EXCISE TAXES

Part I—1932 Excise Taxes Made Permanent

SEC. 501. 1932 EXCISE TAXES MADE PERMANENT.

Section 3452 of the Internal Revenue Code (relating to expiration of 1932 excise taxes) is repealed.

SEC. 502. PIPE LINE TAX.

Section 3460 (a) of the Internal Revenue Code (relating to termination of tax on transportation by pipe line) is amended by striking out "originating before July 1, 1945".

SEC. 503. TECHNICAL AMENDMENT.

The heading of Subtitle C of the Internal Revenue Code is amended to read as follows:

"SUBTITLE C—MANUFACTURERS' EXCISE AND IMPORT TAXES AND TEMPORARY TAXES"

SEC. 504. BOND TAX.

Section 3481 (b) (relating to expiration of tax on transfer of bonds) is repealed.

SEC. 505. CONVEYANCE TAX.

Section 3482 (relating to tax on conveyances) is amended by striking out "delivered before July 1, 1945".

Part II—Defense Tax Rates Made Permanent (No Increase in Tax and No Change in Basis of Tax)

SEC. 521. DEFENSE EXCISE TAX RATES MADE PERMANENT WHICH ARE NOT INCREASED BY THIS ACT.

(a) The following sections of the Internal Revenue Code are amended as follows:

(1) BOX SEATS.—Section 1700 (b) (1) is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

(2) SALES OUTSIDE BOX OFFICE.—Section 1700 (c) (1) is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

(3) CORPORATE SECURITIES.—Section 1801 is amended by striking out "10 cents until July 1, 1945, and 5 cents thereafter" and inserting in lieu thereof "11 cents".

(4) CAPITAL STOCK ISSUES.—Section 1802 (a) is amended by striking out "10 cents until July 1, 1945, and 5 cents thereafter" and the comma wherever following such expression and inserting in lieu thereof "11 cents"; and by striking out "2 cents until July 1, 1945, and 1 cent thereafter," and inserting in lieu thereof "3 cents".

(5) CAPITAL STOCK TRANSFERS.—Section 1802 (b) is amended by striking out "4 cents until July 1, 1945, and 2 cents thereafter," and inserting in lieu thereof "5 cents"; and by striking out "5 cents instead of 4 cents until July 1, 1945" and inserting in lieu thereof "6 cents".

(6) INSURANCE POLICIES.—Section 1804 is amended by striking out "3 cents" and inserting in lieu thereof "4 cents".

(7) PASSAGE TICKETS.—Section 1806 is amended by striking out "$1" and inserting in lieu thereof "$1.10"; by striking out "$3" and inserting in lieu thereof "$3.30"; and by striking out "$5" and inserting in lieu thereof "$5.50".

(8) CIGARETTES.—Section 2000 (c) (2) is amended by striking out "$3" and inserting in lieu thereof "$3.25" and by striking out "$7.20" and inserting in lieu thereof "$7.80".

(9) PISTOLS AND REVOLVERS.—Section 2700 (a) is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

(10) FERMENTED MALT LIQUORS.—Section 3150 (a) is amended by striking out "$5" and inserting in lieu thereof "$6".

(11) WHOLESALERS OF LIQUOR.—Section 3250

(a) (1) is amended by striking out "$100" and inserting in lieu thereof "$110".

(12) RETAILERS OF LIQUOR.—Section 3250 (b) is amended by striking out "$25" and inserting in lieu thereof "$27.50".

(13) BREWERS.—Section 3250 (c) is amended by striking out "$100" and inserting in lieu thereof "$110" and by striking out "$50" and inserting in lieu thereof "$55".

(14) WHOLESALERS OF MALT LIQUORS.—Section 3250 (d) is amended by striking out "$50" and inserting in lieu thereof "$55".

(15) RETAILERS OF MALT LIQUORS.—Section 3250 (e) (1) is amended by striking out "$20" and inserting in lieu thereof "$22", and section 3250 (e) (3) is amended by striking out "$2" and inserting in lieu thereof "$2.20".

(16) RECTIFIERS.—Section 3250 (f) (1) is amended by striking out "$200" and inserting in lieu thereof "$220"; and by striking out "$100" and inserting in lieu thereof "$110".

(17) STILLS.—Section 3250 (j) is amended by striking out "$50" and inserting in lieu thereof "$55"; and by striking out "$20" and inserting in lieu thereof "$22".

(18) FIREARMS, ETC.—Section 3407 is amended by

striking out "10 per centum" and inserting in lieu thereof "11 per centum".

(19) ELECTRICAL ENERGY.—Section 3411 is amended by striking out "3 per centum" and inserting in lieu thereof "$3\frac{1}{3}$ per centum".

(20) GASOLINE.—Section 3412 (a) is amended by striking out "1 cent" and inserting in lieu thereof "$1\frac{1}{2}$ cents".

(21) LUBRICATING OILS.—Section 3413 is amended by striking out "4 cents" and inserting in lieu thereof "$4\frac{1}{2}$ cents".

(22) TRANSPORTATION OF OIL BY PIPE LINE.—Section 3460 (a) is amended by striking out "4 per centum" and inserting in lieu thereof "$4\frac{1}{2}$ per centum".

(23) TRANSFER OF BONDS.—Section 3481 (a) is amended by striking out "4 cents" and inserting in lieu thereof "5 cents".

(24) CONVEYANCES.—Section 3482 is amended by striking out "50 cents" and inserting in lieu thereof "55 cents".

(b) The rates specified in subsection (a) shall be applicable only with respect to the period after the date of the enactment of this Act, and the rates specified in section 1650 (a), section 2004, and section 3190 of the Internal Revenue Code shall not apply with respect to such period.

Part III—Increases in Rates of Existing Excise Taxes

SEC. 531. PLAYING CARDS.

Section 1807 (a) of the Internal Revenue Code is amended by striking out "10 cents" and inserting in lieu thereof "13 cents".

SEC. 532. SAFE DEPOSIT BOXES.

Section 1850 (a) of the Internal Revenue Code is amended by striking out "10 per centum" and inserting in lieu thereof "20 per centum".

SEC. 533. DISTILLED SPIRITS.

(a) RATE ON DISTILLED SPIRITS AND BRANDY.—Section 2800 (a) (1) of the Internal Revenue Code is amended by striking out "at the rate of $2.25 (and on brandy at the rate of $2)" and by inserting in lieu thereof "at the rate of $4 (and on brandy at the rate of $3.75)".

(b) RATE ON IMPORTED PERFUMES CONTAINING ALCOHOL.—Section 2800 (a) (3) of the Internal Revenue Code is amended by striking out "$2.25" and inserting in lieu thereof "$4".

(c) DRAWBACK ON DISTILLED SPIRITS.—The third paragraph of section 2887 of the Internal Revenue Code is amended by striking out "but shall not exceed a rate of $3 (or, in the case of brandy, $2.75)" and inserting in lieu thereof "but shall not exceed a rate of $4 (or, in the case of brandy, $3.75)".

(d) FLOOR STOCKS TAX.—Section 2800 of the Internal Revenue Code is amended by inserting at the end thereof the following new subsection:

"(i) FLOOR STOCKS TAX.—

"(1) Upon all distilled spirits upon which the internal-revenue tax imposed by law has been paid, and which on the effective date of Part III of Title V of the Revenue Act of 1941 are held and intended for sale or for use in the manufacture or production of any article intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax of $1 on each proof-gallon, and a proportionate tax at a like rate on all fractional parts of such proof-gallon.

"(2) Every person required by this subsection to pay any floor stocks tax shall, on or before the first day of the third month beginning after such effective date, under such regulations as the Commissioner, with the approval of the Secretary, shall prescribe, make a return and pay such tax. Payment of the tax shown to be due may be extended to a date not later than the first day of the tenth month beginning after such effective date, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Commissioner, with the approval of the Secretary, may prescribe.

"(3) All provisions of law, including penalties, applicable in respect of internal-revenue taxes on distilled spirits shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the floor stocks tax imposed hereunder. For the purposes of this subsection the term 'distilled spirits' shall include products produced in such manner that the person producing them is a rectifier within the meaning of section 3254 (g)."

SEC. 534. WINES.

(a) RATE ON STILL WINES.—Section 3030 (a) (1) (A) of the Internal Revenue Code is amended by striking out "5 cents" and inserting in lieu thereof "8 cents"; by striking out "15 cents" and inserting in lieu thereof "24 cents"; and by striking out "25 cents" and inserting in lieu thereof "50 cents".

(b) RATE ON SPARKLING WINES, LIQUEURS, CORDIALS, ETC.—Section 3030 (a) (2) of the Internal Revenue Code is amended by striking out "2½ cents" and inserting in lieu thereof "4 cents"; and by striking out "1¼ cents" and inserting in lieu thereof "2¼ cents".

(c) Subchapter F of Chapter 26 of the Internal Revenue Code is amended by inserting at the end thereof the following new section:

"SEC. 3192. FLOOR STOCKS TAX ON WINES.

"(a) FLOOR STOCKS TAX.—Upon all wines upon which the internal-revenue tax imposed by law has been paid, and which on the effective date of Part III of Title V of the Revenue Act of 1941 are held and intended for sale or for use in the manufacture or production of an article intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax at rates equal to the increases in rates of tax (over the defense tax rates) made applicable to such articles by section 534 of the Revenue Act of 1941.

"(b) RETURNS.—Every person required by subsection (a) to pay any floor stocks tax shall, on or before the first day of the third month beginning after such effective date, under such regulations as the Commissioner, with the approval of the Secretary, shall prescribe, make a return and pay such tax. Payment of the tax shown to be due may be extended to a date not later than the first day of the tenth month beginning after such effective date, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Commissioner, with the approval of the Secretary, may prescribe.

"(c) LAWS APPLICABLE.—All provisions of law, including penalties, applicable in respect of the taxes imposed by section 3030 (a) shall, insofar as applicable and not inconsistent with this subsection, be applicable with respect to the floor stocks tax imposed by subsection (a)."

SEC. 535. TIRES AND TUBES.

(a) RATE ON TIRES.—Section 3400 (1) of the Internal Revenue Code is amended by striking out "2¼ cents" and inserting in lieu thereof "5 cents".

(b) RATE ON TUBES.—Section 3400 (2) of the Internal Revenue Code is amended by striking out "4 cents" and inserting in lieu thereof "9 cents".

(c) FLOOR STOCKS TAX ON TIRES AND INNER TUBES.—Section 3400 of the Internal Revenue Code is amended by inserting "(a) TAX.—" before the beginning thereof and by inserting at the end thereof the following:

"(b) FLOOR STOCKS TAX.—Upon tires and inner tubes subject to tax under subsection (a) of the type used on vehicles subject to tax under section 3403 (a) or (b) which on the effective date of Part III of Title V of the Revenue Act of 1941 are held for sale by any person there shall be levied, assessed, collected, and paid a floor stocks tax at the rate of 2½ cents per pound in the case of tires and 4½ cents per pound in the case of inner tubes. The tax shall apply to tires and inner tubes held for sale on, or in connection with, or held for use in the manufacture or production of, articles the sale of which will be subject to tax under section 3403 (a) or (b). The tax shall not apply to tires and inner tubes held for sale by the manufacturer, producer, or importer thereof, and to tires and inner tubes the sale of which will be subject

under the provisions of sections 3444 (a) (2) and 3445 to the manufacturers' tax on tires and inner tubes."

SEC. 536. EFFECTIVE DATE OF PART III.

The amendments made by this Part shall be applicable only with respect to the period beginning with the effective date of this Part, and the rates specified in section 1650 (a), section 1807 (b), section 2004, section 2800 (g), and section 3190 of the Internal Revenue Code shall not apply with respect to such period. This Part shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this Act.

Part IV—Changes in Basis of Computing Tax (Rates Increased in Certain Cases)

SEC. 541. ADMISSIONS TAX.

(a) REDUCTION OF EXEMPTION.—Section 1700 (a) (1) of the Internal Revenue Code is amended to read as follows:

"(1) RATE.—A tax of 1 cent for each 10 cents or fraction thereof of the amount paid for admission to any place, including admission by season ticket or subscription; except that in case the amount paid for admission is less than 10 cents, no tax shall be imposed. In the case of persons (except bona fide employees, municipal officers on official business, children under twelve years of age, members of the military or naval forces of the

United States when in uniform, and members of the Civilian Conservation Corps when in uniform) admitted free or at reduced rates to any place at any time when and under circumstances under which an admission charge is made to other persons, an equivalent tax shall be collected based on the price so charged to such other persons for the same or similar accommodations, to be paid by the person so admitted. Amounts paid for admission by season ticket or subscription shall be exempt only if the amount which would be charged to the holder or subscriber for a single admission is less than 10 cents."

(b) TERMINATION OF EXEMPTIONS.—Section 1701 of the Internal Revenue Code (relating to exemptions from admissions tax) shall not apply with respect to amounts paid, on or after the effective date of this Part, for admission.

(c) EXEMPTION OF NATIONAL PARK, ETC., ADMISSIONS TERMINATED.—The Interior Department Appropriation Act, 1942, is amended by striking out that part thereof under the heading "NATIONAL PARK SERVICE" which reads as follows:

"Hereafter fees incident to admission to the national parks and monuments and other areas in the national park system, charged and collected with the approval of the Secretary of the Interior, shall be exempt from all Federal tax on admissions."

The Act entitled "An Act making appropriations for the Department of the Interior for the fiscal year ending June 30, 1936, and for other purposes", approved May 9, 1935, is amended by striking out that part thereof under the heading "NATIONAL PARK SERVICE" which reads as follows: ": *Provided,* That any admission fee charged for entrance to Carlsbad Caverns and any fee charged for guide service therein, shall be exempt from all taxes on admissions".

SEC. 542. CABARET, ROOF GARDEN, ETC., TAX.

(a) IMPOSITION.—Section 1700 (e) of the Internal Revenue Code is amended to read as follows:

"(e) TAX ON CABARETS, ROOF GARDENS, ETC.—

"(1) RATE.—A tax equivalent to 5 per centum of all amounts paid for admission, refreshment, service, and merchandise, at any roof garden, cabaret, or other similar place furnishing a public performance for profit, if any payment, or part thereof, for admission, refreshment, service, or merchandise, entitles the patron to be present during any portion of such performance. No tax shall be applicable under subsection (a) (1) on account of an amount paid with respect to which tax is imposed under this subsection.

"(2) BY WHOM PAID.—The tax imposed under paragraph (1) shall be returned and paid by the person receiving such payments."

(b) PLACE OF PAYMENT.—Section 1715 (b) of the Internal Revenue Code is amended to read as follows:

"(b) PLACE OF PAYMENT.—The taxes collected under subsection (a), and the taxes required to be paid under section 1700 (c), (d), or (e), shall be paid to the collector of the district in which the principal office or place of business is located."

(c) RETURNS.—Section 1716 (a) of the Internal Revenue Code is amended to read as follows:

"(a) REQUIREMENT.—Every person required under subsection (a) of section 1715 to collect the taxes, or required under section 1700 (c), (d), or (e) to pay the taxes, imposed by this chapter shall make returns under oath, in duplicate, in such manner and containing such information as the Commissioner, with the approval of the Secretary, may, by regulation, prescribe."

(d) Section 1700 (c) (3) and section 1700 (d) (3) of the Internal Revenue Code are repealed as of the effective date of this Part.

SEC. 543. CLUB DUES.

(a) REDUCTION OF EXEMPTION AND DEFENSE TAX RATE MADE PERMANENT.—Section 1710 (a) (1) and (2) of the Internal Revenue Code are amended to read as follows:

"(1) DUES OR MEMBERSHIP FEES.—A tax equiva-

lent to 11 per centum of any amount paid as dues or membership fees to any social, athletic, or sporting club or organization, if the dues or fees of an active resident annual member are in excess of $10 per year.

"(2) INITIATION FEES.—A tax equivalent to 11 per centum of any amount paid as initiation fees to such a club or organization, if such fees amount to more than $10, or if the dues or membership fees, not including initiation fees, of an active resident annual member are in excess of $10 per year."

(b) DEFINITION OF DUES.—Section 1712 (a) of the Internal Revenue Code is amended to read as follows:

"(a) DUES.—The term 'dues' includes any assessment, irrespective of the purpose for which made, and any charges for social privileges or facilities, or for golf, tennis, polo, swimming, or other athletic or sporting privileges or facilities, for any period of more than six days; and".

SEC. 544. AUTOMOBILE, TRUCK, BUS, AND PARTS TAX.

(a) INCREASE OF RATE AND CLASSIFICATION OF BUSSES.—Section 3403 (a) and (b) of the Internal Revenue Code are amended to read as follows:

"(a) Automobile truck chassis, automobile truck bodies, automobile bus chassis, automobile bus bodies, truck and bus trailer and semitrailer chassis, truck and bus trailer and semitrailer bodies, tractors of the kind chiefly used for

highway transportation in combination with a trailer or semitrailer (including in each of the above cases parts or accessories therefor sold on or in connection therewith or with the sale thereof), 5 per centum. A sale of an automobile truck, bus, or truck or bus trailer or semitrailer, shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body.

"(b) Other automobile chassis and bodies, chassis and bodies for trailers or semitrailers suitable for use in connection with passenger automobiles, and motorcycles (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof), except tractors, 7 per centum. A sale of an automobile, trailer, or semitrailer shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body."

(b) INCREASE IN RATE ON PARTS AND EXCLUSION OF RADIOS FROM AUTOMOBILE TAX.—The first sentence of section 3403 (c) of the Internal Revenue Code is amended to read as follows: "Parts or accessories (other than tires and inner tubes and other than radios) for any of the articles enumerated in subsection (a) or (b), 5 per centum."

(c) CREDITS ON ACCOUNT OF TIRE AND TUBE TAX.—Section 3403 (e) of the Internal Revenue Code is amended to read as follows:

"(e) If tires or inner tubes on which tax has been

imposed under this chapter are sold on or in connection with, or with the sale of, a chassis, body, or motor cycle, there shall (under regulations prescribed by the Commissioner, with the approval of the Secretary) be credited against the tax under this section an amount equal to, in the case of an article taxable under subsection (a), 5 per centum, and in the case of an article taxable under subsection (b), 7 per centum—

"(1) of the purchase price (less, in the case of tires, the part of such price attributable to the metal rim or rim base) if such tires or inner tubes were taxable under section 3400 (relating to tax on tires and inner tubes); or

"(2) if such tires or inner tubes were taxable under section 3444 (relating to use by manufacturer, producer, or importer) then of the price (less, in the case of tires, the part of such price attributable to the metal rim or rim base) at which such or similar tires or inner tubes are sold, in the ordinary course of trade, by manufacturers, producers, or importers thereof, as determined by the Commissioner. In lieu of the rates of credit of 5 per centum and 7 per centum above provided, the rates, respectively, for the following periods, shall be as follows:

"(A) With respect to the period after June 30, 1940, and before the effective date of the increase in

tax on automobiles made by the Revenue Act of 1941, 2½ per centum and 3½ per centum; and

"(B) With respect to the period before July 1, 1940, 2 per centum and 3 per centum."

(d) CREDITS ON TERMINATION OF TAX.—Section 3403 (f) of the Internal Revenue Code (relating to credits and refunds on termination of automobile tax) is repealed.

SEC. 545. RADIOS, PHONOGRAPHS, RECORDS, AND MUSICAL INSTRUMENTS.

Section 3404 of the Internal Revenue Code is amended to read as follows:

"SEC. 3404. TAX ON RADIO RECEIVING SETS, PHONOGRAPHS, PHONOGRAPH RECORDS, AND MUSICAL INSTRUMENTS.

"There shall be imposed upon the following articles (including in each case, except in the case of musical instruments, parts or accessories therefor sold on or in connection with the sale thereof) sold by the manufacturer, producer, or importer a tax equivalent to 10 per centum of the price for which sold:

"(a) Radio receiving sets, automobile radio receiving sets, combination radio and phonograph sets, and phonographs.

"(b) Chassis, cabinets, tubes, reproducing units, power packs, antennae of the 'built-in' type, and phono-

graph mechanisms, which are suitable for use on or in connection with, or as component parts of, any of the articles enumerated in subsection (a), whether or not primarily adapted for such use.

"(c) Phonograph records.

"(d) Musical instruments."

SEC. 546. MECHANICAL REFRIGERATORS.

Section 3405 of the Internal Revenue Code is amended to read as follows:

"SEC. 3405. TAX ON REFRIGERATORS, REFRIGERATING APPARATUS, AND AIR-CONDITIONERS.

"There shall be imposed on the following articles (including in each case parts or accessories therefor sold on or in connection with the sale thereof) sold by the manufacturer, producer, or importer a tax equivalent to 10 per centum of the price for which so sold:

"(a) REFRIGERATORS, ETC.—Refrigerators, beverage coolers, ice cream cabinets, water coolers, food and beverage display cases, food and beverage storage cabinets, ice making machines, and milk cooler cabinets, each such article having, or being primarily designed for use with, a mechanical refrigerating unit operated by electricity, gas, kerosene, or gasoline.

"(b) REFRIGERATING APPARATUS.—Compressors, condensers, evaporators, expansion units, absorbers, and

controls, for, or suitable for use as part of, or with, a refrigerating plant, refrigerating system, refrigerating equipment or unit, or any of the articles enumerated in subsection (a).

"(c) AIR-CONDITIONERS.—Self-contained air-conditioning units.

"(d) COMPONENTS.—Cabinets, compressors, condensers, fans, blowers, heating coils, cooling coils, filters, humidifiers, and controls, for, or suitable for use as part of, or with, any of the articles enumerated in subsection (c)."

SEC. 547. MATCHES.

Section 3409 of the Internal Revenue Code is amended to read as follows:

"SEC. 3409. TAX ON MATCHES.

"(a) MANUFACTURERS' TAX.—There shall be imposed upon matches sold by the manufacturer, producer, or importer, a tax of 2 cents per 1,000 matches, except that in the case of fancy wooden matches and wooden matches having a stained, dyed, or colored stick or stem, packed in boxes or in bulk, the tax shall be $5\frac{1}{2}$ cents per 1,000 matches.

"(b) FLOOR STOCKS TAX.—On matches subject to tax under subsection (a) which, on the effective date of Part IV of Title V of the Revenue Act of 1941, are held and intended for sale, or for disposition in connection with the

sale of other articles, there shall be levied, assessed, collected, and paid a floor stocks tax at the rate of 2 cents per thousand matches. The tax shall not apply to matches in retail stocks held at the place where intended to be sold or disposed of. The tax shall not apply to matches held for sale by the manufacturer, producer, or importer thereof, nor to fancy wooden matches or wooden matches having a stained, dyed, or colored stick or stem."

SEC. 548. TELEPHONE, TELEGRAPH, ETC.

Sections 3465 and 3466 of the Internal Revenue Code are amended to read as follows:

"SEC. 3465. IMPOSITION AND RATE OF TAX.

"(a) There shall be imposed:

"(1) In the case of each telegraph, telephone, cable or radio dispatch, message, or conversation which originates within the United States for which the charge is more than 24 cents, a tax of 5 cents for each 50 cents, or fraction thereof, of the charge. Only one payment of such tax shall be required notwithstanding the lines or stations of one or more persons are used for the transmission of such dispatch, message, or conversation; and

"(2) A tax equivalent to 5 per centum of the amount paid for any of the following services:

"(A) Leased wire or talking circuit special service; or

"(B) Wire and equipment services (including teletypewriter service, burglar alarm service, news ticker services, stock quotation and information services, and all other similar services).

The tax shall apply under this paragraph whether or not the wires or services are within a local exchange area.

"(3) A tax equivalent to 5 per centum of the amount paid by subscribers for local telephone service and for any other telephone service in respect of which a tax is not payable under paragraph (1) or (2). Amounts paid for the installation of instruments, wires, poles, switchboards, apparatus, and equipment shall not be considered amounts paid for service. Service paid for by inserting coins in coin-operated telephones shall not be subject to the tax imposed by this paragraph.

"(b) This section shall not apply to the amount paid for so much of the service described in paragraph (2) of subsection (a) as is utilized in the conduct, by a common carrier or telephone or telegraph company or a radio broadcasting station or network, of its business as such.

"SEC. 3466. EXEMPTION FROM TAX.

"(a) No tax shall be imposed under section 3465 upon any payment received for services or facilities furnished to the United States or to any State or Territory, or political subdivision thereof, or the District of Columbia.

"(b) No tax shall be imposed under section 3465 (a) (1) and (2) upon any payment received from any person for services or facilities utilized in the collection of news for the public press or radio broadcasting, or in the dissemination of news through the public press or by means of radio broadcasting, if the charge for such services or facilities is billed in writing to such person. Section 3465 (a) (3) shall not be construed as imposing a tax on services and facilities described in section 3465 (a) (1) or (2) which are exempt from tax under this subsection.

"(c) The right to exemption under this section shall be evidenced in such manner as the Commissioner with the approval of the Secretary may by regulation prescribe."

SEC. 549. INSTALLMENT, ETC., PAYMENTS.

Section 3441 (c) of the Internal Revenue Code is amended to read as follows:

"(c) (1) In the case of (A) a lease, (B) a contract for the sale of an article wherein it is provided that the price shall be paid by installments and title to the article sold does not pass until a future date notwithstanding partial payment by installments, or (C) a conditional sale, there shall be paid upon each payment with respect to the article that portion of the total tax which is proportionate to the portion of the total amount to be paid represented by such payment.

"(2) In the application of paragraph (1) to the articles

with respect to which the rate of tax is increased by the Revenue Act of 1941 or by the Revenue Act of 1940, where the lease, contract of sale, or conditional sale, and delivery thereunder—

"(A) was made before July 1, 1940, the total tax referred to in paragraph (1) shall be the tax at the rate in force on June 30, 1940, and not at any greater rate; or

"(B) was made after June 30, 1940, and before July 1, 1941, the total tax referred to in paragraph (1) shall be the tax at the rate in force on June 30, 1941, and not at any greater rate.

"(3) Despite the provisions of paragraph (1), no tax shall be imposed with respect to any article not taxable under the law in existence on the day before the date of the enactment of the Revenue Act of 1941, if with respect to such article the lease, contract for sale, or conditional sale, and delivery thereunder, was made before July 1, 1941."

SEC. 550. EFFECTIVE DATE OF PART IV.

(a) The amendments made by this Part shall be applicable only with respect to the period beginning with the effective date of this Part, and the rates specified in section 1650 (a), section 1807 (b), section 2004, section 2800 (g), and section 3190 of the Internal Revenue Code shall not apply with respect to such period. This Part shall take effect on the first day of the first month which begins

more than 10 days after the date of the enactment of this Act.

(b) Despite the provisions of subsection (a), the tax imposed by section 1700 (e) of the Internal Revenue Code, as amended by section 542 of this Act (relating to cabaret, etc., tax), shall be applicable only with respect to the period beginning at 10:00 A. M. on the effective date of this Part, and the tax imposed by such subsection as in force prior to its amendment by section 542 of this Act, as modified by section 1650 (a) of the Internal Revenue Code, shall be applicable with respect to the period before 10:00 A. M. on such date.

(c) Despite the provisions of subsection (a), the amendment of section 3465 (a) (2) made by section 548 of this Act (relating to tax on leased-wire, etc., services) shall be applicable only to amounts paid on or after such effective date for services rendered, on or after the effective date of this Part, and the provisions of such subsection before its amendment by section 548 shall be applicable with respect to the period before such effective date.

(d) Despite the provisions of subsection (a), section 3465 (a) (3) of the Internal Revenue Code (relating to tax on telephone bills), added to the Internal Revenue Code by section 548 of this Act, shall apply only to the amounts paid in pursuance of bills rendered, after the expiration of

five days after the effective date of this Part, for services for which no previous bill was rendered. Such section 3465 (a) (3) shall not apply to amounts paid for services otherwise taxable under section 3465 (a) (1) which were rendered before such effective dates; nor to amounts paid for services otherwise taxable under section 3465 (a) (2) which were rendered or paid for before such effective date.

Part V—New Excise Taxes

SEC. 551. SOFT DRINKS.

Subchapter A of chapter 29 of the Internal Revenue Code is amended by inserting after section 3401 the following new section:

"SEC. 3402. TAX ON SOFT DRINKS.

"(a) DEFINITIONS.—As used in this section—

"(1) The term 'soft drinks' means carbonated beverages of the kind commonly known as soft drinks, carbonated liquids of the kind commonly known or commonly used as mixers, sparkling waters, and carbonated natural or artificial mineral waters if such mineral waters contain not more than 60 grains of minerals (dried at the temperature of boiling water) per U. S. gallon. As used in this paragraph the term 'carbonated' includes both natural and artificial carbonation.

"(2) The term 'bottler' means any person who places soft drinks in bottles.

"(3) The term 'bottle' means any bottle, can, keg, or similar closed container.

"(b) BOTTLED SOFT DRINKS.—

"(1) IMPOSITION OF TAX.—There shall be imposed on soft drinks in bottles sold by the bottler or importer, a tax at the following rates:

"(A) If the bottle contains not more than 33 fluid ounces:

"If bottled or imported to retail at not more than 10 cents per bottle, $\frac{1}{6}$ cent per bottle.

"If bottled or imported to retail at more than 10 cents and not more than 20 cents per bottle, $\frac{1}{3}$ cent per bottle.

"If bottled or imported to retail at more than 20 cents per bottle, $\frac{1}{2}$ cent per bottle.

"(B) If the bottle contains more than 33 fluid ounces, 6 per centum of the price for which so sold.

"(2) RETAIL PRICES.—Whenever in paragraph (1) reference is made to soft drinks bottled or imported to retail at not more than a certain price per bottle, then in determining the tax to be paid regard shall be had to the ordinary retail price of a single bottle in its principal market.

"(c) FINISHED OR FOUNTAIN SYRUPS.—

"(1) IMPOSITION OF TAX.—There shall be im-

posed upon finished or fountain syrups, of the kind used in manufacturing, compounding, or mixing soft drinks, sold or used by the manufacturer, producer, or importer, a tax of 6 cents per gallon.

"(2) EXEMPT SALES.—No tax shall be imposed under this subsection with respect to the sale of such syrups where it is established to the satisfaction of the Commissioner that such syrups are sold (A) to a bottler for use in the preparation of bottled soft drinks, or (B) to a person, who does not engage in the preparation of soft drinks, for consumption by him in some use other than the preparation of soft drinks.

"(3) EXEMPT USES.—No tax shall be imposed under this subsection with respect to—

"(A) The use of such syrups by the manufacturer, producer, or importer in the preparation of bottled soft drinks; or

"(B) The consumption of such syrups by the manufacturer, producer, or importer, who is not engaged in the preparation of soft drinks, in some use other than the preparation of soft drinks.

"(d) CARBONIC ACID GAS.—

"(1) IMPOSITION OF TAX.—There shall be imposed upon carbonic acid gas in gaseous, liquid, or solid form, suitable for use in the preparation of soft drinks,

sold by the manufacturer, producer, or importer, or by a dealer in such gas, to any person who sells soft drinks otherwise than in bottles, a tax of 4 cents per pound.

"(2) EXEMPT SALES.—No tax shall be imposed under this subsection with respect to the sale of carbonic acid gas where it is established to the satisfaction of the Commissioner that—

"(A) Such gas is sold for use by the vendee in the preparation of bottled soft drinks, or for consumption by him in some use other than the preparation of soft drinks; or

"(B) Such gas is sold for resale by the vendee in the course of his regular business as a dealer in carbonic acid gas, if such gas is in due course so resold.

"(e) INAPPLICABILITY OF PROVISIONS.—The provisions of section 3442 (1) and (2), section 3443 (a) (1), and section 3444, shall not be applicable to the taxes imposed by this section.

"(f) EFFECTIVE DATE.—This section shall take effect on the effective date of Part V of Title V of the Revenue Act of 1941."

SEC. 552. NEW MANUFACTURERS' EXCISE TAXES.

Subchapter A of Chapter 29 of the Internal Revenue Code is amended by inserting after section 3405 the following new section:

"SEC. 3406. EXCISE TAXES IMPOSED BY THE REVENUE ACT OF 1941.

"(a) IMPOSITION.—There shall be imposed on the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to the rate, on the price for which sold, set forth in the following paragraphs (including in each case parts or accessories of such articles sold on or in connection therewith, or with the sale thereof) :

"(1) SPORTING GOODS.—Badminton nets; badminton rackets (measuring 22 inches over-all or more in length) ; badminton racket frames (measuring 22 inches over-all or more in length) ; badminton racket string; badminton shuttlecocks, badminton standards; baseballs; baseball bats (measuring 26 inches or more in length) ; baseball body protectors and shin guards; baseball gloves and mitts; baseball masks; basketballs; billiard and pool tables (measuring 45 inches over-all or more in length) ; billiard and pool balls and cues for such tables; bowling balls and pins; boxing gloves, masks, head guards, and ear guards; clay pigeons; cricket balls; cricket bats; croquet balls and mallets; curling stones; deck tennis rings, nets, and posts; fencing equipment; fishing rods, creels, reels, and artificial lures, baits, and flies; footballs; football harness; football helmets; golf bags (measuring 26 inches or more in length) ; golf

balls; golf clubs (measuring 30 inches or more in length); gymnasium equipment and apparatus; hockey balls; hockey pucks; hockey sticks (measuring 30 inches or more in length); indoor baseballs; indoor baseball bats (measuring 26 inches or more in length); indoor baseball gloves and mitts; lacrosse balls; lacrosse sticks; mass balls; polo balls; polo mallets; push balls; skates; skis; ski poles; snow shoes; snow toboggans and sleds; soccer balls; softball balls; softball bats (measuring 26 inches or more in length); softball gloves and mitts; squash balls; squash rackets (measuring 22 inches over-all or more in length); squash racket frames (measuring 22 inches over-all or more in length); squash racket string; tennis balls; table tennis tables, balls, nets, and paddles; tennis nets; tennis rackets (measuring 22 inches over-all or more in length); tennis racket frames (measuring 22 inches over-all or more in length); tennis racket string; track hurdles; traps for throwing clay pigeons; vaulting poles, cross bars, and standards; volley balls, nets, and standards; water polo balls and goals; and wrestling head harness; 10 per centum.

"(2) LUGGAGE.—Trunks, valises, traveling bags, suitcases, hat boxes for use by travelers, fitted toilet cases (not including contents), and other traveler's

luggage, and leather and imitation leather brief cases, 10 per centum.

"(3) ELECTRIC APPLIANCES.—Electric direct motor-driven fans and air circulators; electric storage water heaters; electric flat irons; electric air heaters (not including furnaces)'; electric immersion heaters; electric heating pads and blankets; electric appliances of the type used for cooking, warming, or keeping warm food or beverages for consumption on the premises; electric mixers, whippers, and juicers; and household type electric vacuum cleaners; 10 per centum.

"(4) PHOTOGRAPHIC APPARATUS.—Cameras and lenses; unexposed photographic films (including motion picture films but not including X-Ray film), photographic plates and sensitized paper; photographic apparatus and equipment; and any apparatus or equipment designed especially for use in the taking of photographs or motion pictures or in the developing, printing, or enlarging of photographs or motion picture films; 10 per centum.

"(5) ELECTRIC SIGNS.—Neon-tube signs, electric signs, and electric advertising devices, 10 per centum.

"(6) BUSINESS AND STORE MACHINES.—Adding machines, addressing machines, autographic registers,

bank proof machines, billing machines, bookkeeping machines, calculating machines, card punching machines, cash registers, change making machines, check writing machines, check signing machines, check cancelling machines, check perforating machines, check cutting machines, check dating machines, other check protector machine devices, comptometers, computing machines, coin counters, dictographs, dictaphones, dictaphone record shaving machines, dictating machines, duplicating machines, embossing machines, envelope opening machines, erasing machines, folding machines, fanfold machines, fare registers, fare boxes, listing machines, line-a-time and similar machines, mailing machines, multigraph machines, multigraph typesetting machines, multigraph type justifying machines, numbering machines, portable paper fastening machines, pay roll machines, pencil sharpeners, postal permit mailing machines, punch card machines, sorting machines, stencil cutting machines, shorthand writing machines, sealing machines, tabulating machines, ticket counting machines, ticket issuing machines, typewriters, transcribing machines, time recording devices, and combinations of any of the foregoing, 10 per centum.

"(7) RUBBER ARTICLES.—Articles of which rubber is the component material of chief weight, 10 per centum.

The tax imposed under this paragraph shall not be applicable to footwear, articles designed especially for hospital or surgical use, or articles taxable under any other provision of this Chapter.

"(8) WASHING MACHINES.—Washing machines of the kind used in commercial laundries, 10 per centum. No tax shall be imposed under this paragraph on washing machines of the household type.

"(9) OPTICAL EQUIPMENT.—Refractometers; spectrometers; spectroscopes; colorimeters; polariscopes; optical measuring instruments; telescopic sights; projection lenses and prisms; optical machinery; microscopes; telescopes; photo-micro and micro-projection apparatus; fire control optical instruments; and searchlight mirrors and reflectors; 10 per centum.

"(b) EXEMPTION IF ARTICLE TAXABLE AS JEWELRY.—No tax shall be imposed under this section on any article taxable under section 2400 (relating to jewelry tax).

"(c) EFFECTIVE DATE.—This section shall take effect on the effective date of Part V of Title V of the Revenue Act of 1941."

SEC. 553. NEW RETAILERS' EXCISE TAXES.

(a) IMPOSITION OF TAX.—The Internal Revenue Code is amended by adding after Chapter 18 the following new chapter:

"CHAPTER 19—RETAILERS' EXCISE TAXES

"SEC. 2400. TAX ON JEWELRY, ETC.

"There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 per centum of the price for which so sold: All articles commonly or commercially known as jewelry, whether real or imitation; pearls, precious and semi-precious stones, and imitations thereof; articles made of, or ornamented, mounted or fitted with, precious metals or imitations thereof; watches and clocks and cases and movements therefor; gold, gold-plated, silver, silver-plated or sterling flatware or hollow ware; opera glasses; lorgnettes; marine glasses; field glasses; and binoculars. The tax imposed by this section shall not apply to any article used for religious purposes, to surgical instruments, or to frames or mountings for spectacles or eyeglasses.

"SEC. 2401. TAX ON FURS.

"There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 per centum of the price for which so sold: Articles made of fur on the hide or pelt, and articles of which such fur is the component material of chief value.

"SEC. 2402. TAX ON TOILET PREPARATIONS.

"(a) TAX.—There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 per centum of the price for which so sold: Perfumes, essences, extracts,

toilet waters, cosmetics, petroleum jellies, hair oils, pomades, hair dressings, hair restoratives, hair dyes, aromatic cachous, toilet powders, and any similar substance, article, or preparation, by whatsoever name known or distinguished; any of the above which are used or applied or intended to be used or applied for toilet purposes.

"(b) BEAUTY PARLORS, ETC.—For the purposes of subsection (a), if any person operating a barber shop, beauty parlor, or similar establishment, uses any article described in subsection (a) in the treatment of any customer or patron, the total amount so used during any month shall be considered as sold at retail by such person during such month, and the fair retail price of such amount, as determined by the Commissioner, shall be considered to be the price at which so sold.

"SEC. 2403. RETURN AND PAYMENT OF RETAILERS' EXCISE TAXES.

"(a) Every person who sells at retail any article taxable under this chapter shall make monthly returns under oath in duplicate and pay the taxes imposed by this chapter to the collector for the district in which is located his principal place of business or, if he has no principal place of business in the United States, then to the collector at Baltimore, Maryland. Such returns shall contain such information and be made at such times and in such manner as the Commissioner,

with the approval of the Secretary, may by regulations prescribe.

"(b) The tax shall, without assessment by the Commissioner or notice from the collector, be due and payable to the collector at the time so fixed for filing the return. If the tax is not paid when due, there shall be added as part of the tax interest at the rate of 6 per centum per annum from the time when the tax became due until paid.

"SEC. 2404. DEFINITION OF SALE.

"For the purposes of this chapter, the lease of an article shall be considered the sale of such article.

"SEC. 2405. LEASES, CONDITIONAL SALES, ETC.

"In the case of (a) a lease, (b) a contract for the sale of an article wherein it is provided that the price shall be paid by installments and title to the article sold does not pass until a future date notwithstanding partial payment by installments, or (c) a conditional sale, there shall be paid upon each payment with respect to the article that portion of the total tax which is proportionate to the portion of the total amount to be paid represented by such payment. No tax shall be imposed under this chapter on the sale of any article taxable under section 2400 or section 2401 if with respect to such article the lease, contract for sale, or conditional sale was made, delivery thereunder was made, and a part of the consideration was paid, before July 1, 1941.

"SEC. 2406. TAX-FREE SALES.

"Under regulations prescribed by the Commissioner with the approval of the Secretary, no tax under this chapter shall be imposed with respect to the sale of any article—

"(a) for the exclusive use of the United States, any State, Territory of the United States, or any political subdivision of the foregoing, or the District of Columbia;

"(b) for export, or for shipment to a possession of the United States, and in due course so exported or shipped.

"SEC. 2407. CREDITS AND REFUNDS.

"(a) A credit against tax under this chapter, or a refund, may be allowed with respect to an article, when the price on which the tax was based is readjusted by reason of return or repossession of the article, or by a bona fide discount, rebate, or allowance, in the amount of that part of the tax proportionate to the part of the price which is refunded or credited.

"(b) No overpayment of tax under this chapter shall be credited or refunded, in pursuance of a court decision or otherwise, unless the person who paid the tax establishes, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, (1) that he has not included the tax in the price of the article with respect to which it was imposed, or collected the amount of tax from the pur-

chaser, or (2) that he has repaid the amount of the tax to the purchaser of the article, or unless he files with the Commissioner written consent of such purchaser to the allowance of the credit or refund.

"SEC. 2408. APPLICABILITY OF ADMINISTRATIVE PROVISIONS.

"All provisions of law (including penalties) applicable in respect of the taxes imposed by section 2700 shall, insofar as applicable and not inconsistent with this chapter, be applicable in respect of the taxes imposed by this chapter.

"SEC. 2409. RULES AND REGULATIONS.

"The Commissioner, with the approval of the Secretary, shall prescribe and publish all needful rules and regulations for the enforcement of this chapter.

"SEC. 2410. EFFECTIVE DATE.

"This chapter shall be effective on and after the effective date of Part V of Title V of the Revenue Act of 1941."

(b) TERMINATION OF MANUFACTURERS' TAX ON TOILET PREPARATIONS.—The tax imposed by section 3401 of the Internal Revenue Code shall not apply to articles sold on or after the effective date of this Part.

SEC. 554. TRANSPORTATION OF PERSONS, ETC.

(a) The heading of Subchapter C is amended to read as follows: **"SUBCHAPTER D—ADMINISTRATIVE PROVISIONS".**

(b) Chapter 30 of the Internal Revenue Code is amended by inserting after section 3468 the following new subchapter:

"SUBCHAPTER C—TRANSPORTATION OF PERSONS

"SEC. 3469. TAX ON TRANSPORTATION OF PERSONS, ETC.

"(a) TRANSPORTATION.—There shall be imposed upon the amount paid within the United States, on or after the effective date of Part V of Title V of the Revenue Act of 1941, for the transportation, on or after such effective date, of persons by rail, motor vehicle, water, or air, within or without the United States, a tax equal to 5 per centum of the amount so paid. Such tax shall apply to transportation by motor vehicles having a passenger seating capacity of less than 10 adult passengers, including the driver, only when such vehicle is operated on an established line.

"(b) EXEMPTION OF CERTAIN TRIPS.—The tax imposed by subsection (a) shall not apply to amounts paid for transportation which do not exceed 35 cents, to amounts paid for commutation or season tickets for single trips of less than thirty miles, or to amounts paid for commutation tickets for one month or less.

"(c) SEATS, BERTHS, ETC.—There shall be imposed upon the amount paid within the United States for seating or sleeping accommodations in connection with transportation with respect to which a tax is imposed by subsection

(a) a tax equivalent to 5 per centum of the amount so paid.

"(d) RETURNS AND PAYMENT.—The taxes imposed by this section shall be paid by the person making the payment subject to the tax. Each person receiving any payment specified in subsection (a) or (c) shall collect the amount of the tax imposed from the person making such payment, and shall, on or before the last day of each month, make a return, under oath, for the preceding month, and pay the taxes so collected to the collector in the district in which his principal place of business is located, or if he has no principal place of business in the United States, to the collector at Baltimore, Maryland. Such returns shall contain such information and be made in such manner as the Commissioner with the approval of the Secretary may by regulations prescribe.

"(e) EXTENSIONS OF TIME.—The Commissioner may extend the time for making returns and paying the taxes collected, under such rules and regulations as he shall prescribe with the approval of the Secretary, but no such extension shall be for more than ninety days.

"(f) GOVERNMENTAL EXEMPTION.—The tax imposed by this section shall not apply to the payment for transportation or facilities furnished to the United States, or to any State or Territory, or political subdivision thereof, or the District of Columbia."

(c) STAMP TAX ON PASSAGE TICKETS NOT TO APPLY.—No tax shall be imposed under Chapter 11 of the Internal Revenue Code on a ticket sold or issued for passage the amount paid for which is taxable under section 3469 of the Internal Revenue Code.

(d) TECHNICAL AMENDMENTS.—

(1) Section 55 (a) (2) of the Internal Revenue Code is amended by striking out "subchapters A and B of".

(2) Section 3471 (a) and (c) are amended by inserting after "subchapter B" wherever occurring therein "or subchapter C".

(3) Section 3472 of the Internal Revenue Code is amended by striking out "of subchapters A and B".

SEC. 555. COIN-OPERATED AMUSEMENT AND GAMING DEVICES.

Subchapter A of Chapter 27 of the Internal Revenue Code is amended by adding at the end thereof the following new Part:

"Part IX—Coin-Operated Amusement and Gaming Devices

"SEC. 3267. TAX ON COIN-OPERATED AMUSEMENT AND GAMING DEVICES.

"(a) RATE.—Every person who maintains for use or permits the use of, on any place or premises occupied by him, a coin-operated amusement or gaming device shall pay a special

tax of $25 per year in respect of such device, and shall pay an additional special tax of $25 per year for each additional such device so maintained or the use of which is so permitted. If one such device is replaced by another, such other device shall not be considered an additional device.

"(b) DEFINITION.—As used in this Part, the term 'coin-operated amusement and gaming devices' means (1) so-called 'pin-ball' and other similar amusement machines, operated by means of the insertion of a coin, token, or similar object, and (2) so-called 'slot' machines which operate by means of insertion of a coin, token, or similar object and which, by application of the element of chance, may deliver, or entitle the person playing or operating the machine to receive, cash, premiums, merchandise, or tokens. The term does not include bona fide vending machines in which are not incorporated gaming or amusement features.

"(c) APPLICABILITY OF ADMINISTRATIVE PROVISIONS.—An operator of a place or premises who maintains for use or permits the use of any coin-operated device shall be considered, for the purposes of Subchapter B, to be engaged in a trade or business in respect of each such device.

"(d) EFFECTIVE DATE OF TAX.—With respect to the year ending June 30, 1942, no tax shall be payable under this Part for any period prior to the effective date of Part V of Title V of the Revenue Act of 1941."

SEC. 556. BOWLING ALLEYS, ETC.

Subchapter A of Chapter 27 of the Internal Revenue Code is amended by adding at the end thereof the following new Part:

"Part X—Bowling Alleys, and Billiard and Pool Tables

"SEC. 3268. TAX ON BOWLING ALLEYS, AND BILLIARD AND POOL TABLES.

"(a) RATE.—Every person who operates a bowling alley, billiard room, or pool room shall pay a special tax of $15 per year for each bowling alley, billiard table, or pool table. Every building or place where bowls are thrown or where games of billiards or pool are played, except in private homes, shall be regarded as a bowling alley, billiard room, or pool room, respectively.

"(b) EFFECTIVE DATE OF TAX.—With respect to the year ending June 30, 1942, no tax shall be payable under this Part for any period prior to the effective date of Part V of Title V of the Revenue Act of 1941."

SEC. 557. OUTDOOR ADVERTISING.

Subchapter A of Chapter 27 of the Internal Revenue Code is amended by adding at the end thereof the following new Part:

"Part XI—Outdoor Advertising

"SEC. 3269. TAX ON OUTDOOR ADVERTISING.

"(a) TAX.—Every person who engages in business as

a lessor of billboards for outdoor advertising shall pay with respect to each billboard maintained or controlled by him for use in such business a special tax at the following rates:

"Tax Classification "For each billboard having an advertising space area of:	Per Annum
"(1) Not more than 100 square feet	$1.00
"(2) More than 100 and not more than 200 square feet	2.00
"(3) More than 200 and not more than 300 square feet	3.00
"(4) More than 300 and not more than 400 square feet	5.00
"(5) More than 400 and not more than 600 square feet	8.00
"(6) More than 600 square feet	11.00

"(b) ADDITIONAL BILLBOARDS.—Where a person has paid the special tax with respect to each of a number of billboards of the same tax classification and thereafter discontinues the maintenance or control of one or more, and also assumes the maintenance or control of additional billboards of the same tax classification, he shall pay special tax only with respect to so many of such additional billboards as exceed the number with respect to which he has already paid special tax.

"(c) DEFINITIONS.—As used in this section—

"(1) The term 'billboard' means any outdoor structure or device primarily designed for the display of advertising matter, and includes so-called 'sign space' on the exterior of a building the use of which is controlled by a person engaged in business as lessor of billboards for outdoor advertising.

"(2) The term 'lessor' means any person who maintains or controls the use of billboards and, for compensa-

tion, displays advertising matter thereon for another person or permits the display of advertising matter thereon by another person.

"(d) PENALTIES.—Any person liable for the special tax under this section with respect to any billboard maintained or controlled by him who fails to pay such tax, besides being liable for the payment of the tax, shall be fined not more than $50 for each offense.

"(e) OTHER LAWS APPLICABLE.—All administrative and penalty provisions of subchapters A, B, and C of Chapter 11, insofar as applicable, shall apply to the special tax imposed by subsection (a) and to the persons upon whom imposed.

"(f) EFFECTIVE DATE OF TAX.—With respect to the year ending June 30, 1942, no tax shall be payable under this Part for any period prior to the effective date of Part V of Title V of the Revenue Act of 1941."

SEC. 558. USE OF MOTOR VEHICLES AND BOATS.

The Internal Revenue Code is amended by inserting after Chapter 33 the following new chapter:

"CHAPTER 33A—USE OF MOTOR VEHICLES AND BOATS

"SEC. 3540. TAX ON USE OF MOTOR VEHICLES AND BOATS.

"(a) IMPOSITION OF TAX.—There shall be imposed upon the use of motor vehicles and boats a tax, with respect

to each year in which such use occurs, at the following rates:

"(1) Motor vehicles—$5.

"(2) BOATS.—

"Over-all length 16 feet or over but not over 28 feet, $5.

"Over-all length over 28 feet but not over 50 feet, $10.

"Over-all length over 50 feet but not over 100 feet, $40.

"Over-all length over 100 feet but not over 150 feet, $100.

"Over-all length over 150 feet but not over 200 feet, $150.

"Over-all length over 200 feet, $200.

Such tax, in the case of a motor vehicle, shall be paid by the person in whose name the motor vehicle is, or is required to be, registered under the law of the State, Territory, or the District of Columbia in which such motor vehicle is, or is required to be, registered. Such tax, in the case of a boat, shall be paid by the owner of the boat. The tax imposed by this section shall not apply to any use before February 1, 1942, and use before such date shall not be considered to be use within the meaning of this section.

"(b) DEFINITIONS.—For the purposes of this section—

"(1) The term 'year' means the year beginning July 1.

"(2) The term 'motor vehicle' means all motor vehicles of the kind chiefly used for highway transportation.

"(3) The term 'boat' means all boats propelled by machinery, sail, or both, measuring 16 feet or more in over-all length, owned by a citizen or resident of the United States. Such term does not include boats used exclusively for trade, or commercial fishing, or boats used without profit by any benevolent, charitable, or religious organization exclusively for furnishing aid, comfort, or relief to seamen.

"(4) The term 'use' in the case of the use of a motor vehicle means use on the public highways.

"(c) PRORATION OF TAX.—If in any year the first use of the motor vehicle or boat is after July 31 the tax shall be reckoned proportionately from the first day of the month in which such use occurs to and including the 30th day of June following.

"(d) ONE PAYMENT PER YEAR.—If the tax imposed by this section is paid with respect to any motor vehicle or boat for any year no further tax shall be imposed for such year with respect to such motor vehicle or boat.

"(e) EVIDENCE OF TAX PAYMENT.—The payment of the tax imposed by this section shall be evidenced by such

suitable stamp, sticker, or tag of such form, which shall be affixed to the motor vehicle or boat in such manner, as the Commissioner, with the approval of the Secretary, may by regulations prescribe.

"(f) MANNER OF COLLECTION.—The place, time, and manner of making payment of the tax, and of furnishing such stamp, sticker, or tag shall be such as may be provided in regulations prescribed by the Commissioner with the approval of the Secretary.

"(g) COOPERATION OF POST OFFICE DEPARTMENT.—The Commissioner shall furnish to the Postmaster General without prepayment a suitable quantity of stamps, stickers, or tags to be distributed to and kept on sale by postmasters in the United States. The Postmaster General may require each such postmaster to give additional or increased bond as postmaster for the value of the stamps, stickers, or tags furnished to him, and each such postmaster shall deposit the receipts from the sale of such stamps, stickers, or tags to the credit of and render accounts to the Postmaster General at such times and in such form as he may by regulations prescribe. The Postmaster General shall at least once monthly transfer all collections from this source to the Treasury as internal-revenue collections. The Postmaster General is authorized to cooperate to the fullest extent possible with the Commissioner in the sale of such stamps, stick-

ers, or tags and in forwarding to the Commissioner or to the collector of internal revenue such blanks or forms as the Commissioner may determine necessary to the collection of the tax.

"(h) SALE OF STAMPS BY PRIVATE PERSONS.—If the Commissioner provides for the sale of stamps, stickers, or tags by persons not officers or employees of the United States he may require bond, with sufficient sureties, in a sum to be fixed by the Commissioner, conditioned for the faithful return, whenever required, of all quantities or amounts undisposed of, and for the payment for, all quantities or amounts sold or not remaining on hand. The Commissioner, with the approval of the Secretary, may from time to time make such regulations as he may find necessary to insure the safekeeping or prevention of illegal use of all such stamps, stickers, or tags.

"(i) PENALTIES FOR UNLAWFUL USE.—Any person liable for the tax under this section who uses or permits the use of the motor vehicle or boat before tax has been paid shall be guilty of a misdemeanor and upon conviction thereof shall be fined not more than $25 or imprisoned for not more than 30 days, or both. Any person who uses or operates a motor vehicle or boat at a time when the stamp, sticker, or tag does not appear on the motor vehicle or boat in the manner provided in the regulations prescribed under sub-

section (e) or (f) shall be guilty of a misdemeanor and upon conviction thereof shall be fined not more than $25.

"(j) EXEMPT USES.—The tax imposed by this section shall not apply to the use of a motor vehicle or boat by the United States, a State, Territory, the District of Columbia, or a political subdivision of any of the foregoing."

SEC. 559. EFFECTIVE DATE OF PART V.

This Part shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this Act.

TITLE VI—RADIO BROADCASTING AND NETWORK TAX

SEC. 601. TAX ON RADIO BROADCASTING STATIONS AND NETWORKS.

Subtitle B of the Internal Revenue Code is amended by inserting after chapter 6 the following new chapter:

"CHAPTER 6A

"SEC. 1220. TAX ON RADIO BROADCASTING STATIONS AND NETWORKS.

"(a) RATE.—For each calendar year beginning after December 31, 1941, there shall be imposed upon every person with respect to operating a radio broadcasting station or engaging in network broadcasting for any part of such year, an excise tax computed as follows:

"(1) If the net time sales exceed $100,000 and do

not exceed $500,000, an amount equal to 5 per centum of the net time sales, or an amount equal to the net time sales in excess of $100,000, whichever is the lesser.

"(2) If the net time sales exceed $500,000 and do not exceed $1,000,000, an amount equal to 10 per centum of the net time sales, or an amount equal to $25,000 plus the amount of the net time sales in excess of $500,000, whichever is the lesser.

"(3) If the net time sales exceed $1,000,000, an amount equal to 15 per centum of the net time sales, or an amount equal to $100,000 plus the amount of the net time sales in excess of $1,000,000, whichever is the lesser.

"(b) DEFINITIONS.—For the purposes of this section—

"(1) 'Network broadcasting' means the making of arrangements with persons operating radio broadcasting stations for the simultaneous broadcast of an identical program by two or more connected stations and the distribution of programs by wire or radio to such persons.

"(2) 'Time sales' means the gross amount received or accrued from the sale of broadcast time. Where the sale is for a consideration other than money the gross amount considered to be received or accrued shall be the seller's published card rate for broadcast time.

Where the sale is for a consideration, less a commission to an advertising agency (whether such sale is made to such agency or its principal) the amount of such commission (not in excess of 15 per centum of such consideration) shall be excluded in determining the gross amount received or accrued with respect to such sale.

"(3) 'Net time sales' means time sales minus the amounts paid or incurred for broadcast time to other persons operating radio stations or engaged in network broadcasting.

"SEC. 1221. RETURNS.

"(a) REQUIREMENT.—Every person liable for tax under section 1220 shall make a return under oath. Such return shall contain such information and be made in such manner as the Commissioner with the approval of the Secretary may by regulations prescribe.

"(b) TIME FOR FILING.—

"(1) GENERAL RULE.—Such return shall be made within two months after the close of the year with respect to which such tax is imposed.

"(2) EXTENSION OF TIME.—The Commissioner may extend the time for making the returns, under such rules and regulations as he may prescribe with the ap-

proval of the Secretary, but no such extension shall be for more than sixty days.

"(c) PLACE FOR FILING.—The return shall be made to the collector for the district in which is located the principal place of business of the taxpayer, or, if it has no principal place of business in the United States, then to the collector at Baltimore, Maryland.

"SEC. 1222. OTHER LAWS APPLICABLE.

"All provisions of law (including penalties) applicable in respect of the taxes imposed by chapter 6 shall, insofar as not inconsistent with this chapter, be applicable in respect of the tax imposed by this chapter."

Passed the House of Representatives August 4, 1941.

Attest: SOUTH TRIMBLE,

Clerk.

77TH CONGRESS
1ST SESSION

H. R. 5417

AN ACT

To provide revenue, and for other purposes.

AUGUST 5 (legislative day, JULY 28), 1941
Read twice and referred to the Committee on Finance

77TH CONGRESS
1ST SESSION

H. R. 5417

IN THE SENATE OF THE UNITED STATES

AUGUST 5 (legislative day, JULY 28), 1941

Referred to the Committee on Finance and ordered to be printed

AMENDMENT

Intended to be proposed by Mr. MCCARRAN to the bill (H. R. 5417) to provide revenue, and for other purposes, viz:

On page , line , under title II, strike out all of section 206, entitled "**CORPORATIONS ENGAGED IN MINING STRATEGIC METALS.**"

8-5-41——A

77TH CONGRESS
1ST SESSION

H. R. 5417

AMENDMENT

Intended to be proposed by Mr. McCARRAN to the bill (H. R. 5417) to provide revenue, and for other purposes.

AUGUST 5 (legislative day, JULY 28), 1941
Referred to the Committee on Finance and ordered to be printed

77TH CONGRESS
1ST SESSION

H. R. 5417

LIBRARY
BUREAU OF
AGRICULTURAL ECONOMICS
U.S. DEPARTMENT OF AGRICULTURE

IN THE SENATE OF THE UNITED STATES

AUGUST 7 (legislative day, JULY 28), 1941
Referred to the Committee on Finance and ordered to be printed

AMENDMENT

Intended to be proposed by Mr. OVERTON to the bill (H. R. 5417) to provide revenue, and for other purposes, viz: At the proper place in the bill insert the following new section:

SEC. . EXCLUSION FROM GROSS INCOME.

Section 22 (b) of the Internal Revenue Code is amended by adding at the end thereof the following new paragraph:

"(10) CONGRESSIONAL MILEAGE ALLOWANCE.—Amounts received for mileage under any Legislative Branch Appropriation Act by the President of the Senate, Senators, Representatives, Delegates from Hawaii and Alaska, and the Resident Commissioner from Puerto Rico."

77TH CONGRESS
1ST SESSION

H. R. 5417

AMENDMENT

Intended to be proposed by Mr. OVERTON to the bill (H. R. 5417) to provide revenue, and for other purposes.

AUGUST 7 (legislative day, JULY 28), 1941
Referred to the Committee on Finance and ordered to be printed

77TH CONGRESS
1ST SESSION

H. R. 5417

LIBRARY
BUREAU OF
AGRICULTURAL ECONOMICS

IN THE SENATE OF THE UNITED STATES

AUGUST 15 (legislative day, AUGUST 14), 1941

Referred to the Committee on Finance and ordered to be printed

AMENDMENT

Intended to be proposed by Mr. BONE to the bill (H. R. 5417) to provide revenue, and for other purposes, viz: At the proper place insert the following new section:

SEC. . GROSS ESTATE DEDUCTIONS.

(a) DEDUCTION FROM GROSS ESTATE OF CITIZENS OR RESIDENTS OF THE UNITED STATES.—Section 812 (d) of the Internal Revenue Code is amended by adding at the end thereof the following new sentence: "Any contribution or gift—

"(1) which was promised to any such corporation, trustee or trustees, fraternal society, order, or association, by the decedent prior to his death,

"(2) the whole or any part thereof is paid to the

promisee by the executor prior to the expiration of the period for the payment of tax as provided in section 822, and

"(3) is to be used in accordance with the limitations imposed upon the use of contributions or gifts by this subsection,

shall, with respect to the amount so paid, be considered a transfer for the purposes of this subsection."

(b) DEDUCTION FROM GROSS ESTATE OF NONRESIDENTS NOT CITIZENS OF THE UNITED STATES.—Section 861 (a) (3) of the Internal Revenue Code is amended by adding at the end thereof the following new sentence: "Any contribution or gift—

"(1) which was promised to any such corporation, trustee or trustees, fraternal society, order, or association, by the decedent prior to his death,

"(2) the whole or any part thereof is paid to the promisee by the executor prior to the expiration of the period for the payment of tax as provided in section 822, and

"(3) is to be used in accordance with the limitations imposed upon the use of contributions or gifts by this paragraph,

shall, with respect to the amount so paid, be considered a transfer for the purposes of this paragraph."

(c) EFFECTIVE DATE OF AMENDMENTS.—The amendments made by this section shall be applicable only to estates of decedents dying after December 31, 1939.

77TH CONGRESS
1ST SESSION

H. R. 5417

AMENDMENT

Intended to be proposed by Mr. BONE to the bill (H. R. 5417) to provide revenue, and for other purposes.

AUGUST 15 (legislative day, AUGUST 14), 1941

Referred to the Committee on Finance and ordered to be printed

Calendar No. 703

77TH CONGRESS, 1st Session | SENATE | REPT. 673, Part 1

THE REVENUE BILL OF 1941

LIBRARY, AGRICULTURAL, U.S. DEPARTMENT OF

SEPTEMBER 2, 1941.—Ordered to be printed

Mr. GEORGE, from the Committee on Finance, submitted the following

REPORT

[To accompany H. R. 5417]

The Committee on Finance, to whom was referred the bill (H. R. 5417) to provide revenue, and for other purposes, having had the same under consideration, report favorably thereon with certain amendments and, as amended, recommend that the bill do pass.

ESTIMATES OF REVENUE

The bill as passed by the House was estimated to produce added tax revenue of $3,216,400,000 annually. The amendments made by your committee add $463,400,000 to this figure, bringing the total additional annual yield to $3,679,800,000.

The additional revenue to be secured by your committee bill over that of the House bill comes principally from the following sources: corporation normal tax $19,000,000, corporation surtax $120,500,000, and individual income tax $332,400,000.

The following table sets out the estimated yields of the House bill and the Finance Committee bill, with the increase or decrease of the Finance Committee bill over the House bill. It should be noted that the figures contemplate a year of full operation.

Estimated revenue effect [1] *of the revenue bill of 1941 (H. R. 5417) as passed by the House of Representatives Aug. 4, 1941, and as reported by the Senate Finance Committee, Sept. 2, 1941*

[In millions of dollars]

	Estimated increase or decrease (−) over yield or present law		Estimated increase (+) or decrease (−) Senate Finance Committee over House bill
	House bill	Senate Finance Committee	
Income taxes:			
Corporation:			
Normal tax	−520.1	−501.1	+19.0
Surtax	644.7	765.2	+120.5
Excess-profits tax	1,198.3	1,130.6	−67.7
Total corporation income taxes	1,322.9	1,394.7	+71.8
Individual	864.8	1,197.2	+332.4
Total income taxes	2,187.7	2,591.9	+404.2
Miscellaneous internal revenue:			
Capital-stock tax	22.3	−16.1	−38.4
Estate tax	135.9	141.6	+5.7
Gift tax	16.0	16.0	0
Total	174.2	141.5	−32.7
Manufacturers' and retailers' excise taxes:			
Distilled spirits	[2] 122.3	[2] 123.0	+.7
Wines	[2] 5.0	[2] 14.4	+9.4
Passenger automobiles, parts, and accessories	72.2	72.2	0
Automobile trucks, busses, and trailers	16.1	16.1	0
Tires and tubes	44.6	44.6	0
Refrigerators, refrigerating apparatus, and air-conditioners	16.6	16.6	0
Matches	[2] 8.2	[2] 8.2	0
Playing cards	1.0	1.0	0
Radio receiving sets and parts	9.4	9.4	0
Phonographs and phonograph records	4.5	4.5	0
Musical instruments	3.6	3.6	0
Sporting goods	8.5	8.2	−.3
Luggage	4.5	4.5	0
Electrical appliances	12.6	12.6	0
Photographic apparatus	10.0	9.9	−.1
Electric signs	2.7	2.7	0
Business and store machines	13.0	13.0	0
Rubber articles	21.3	21.3	0
Washing machines	.4	5.7	+5.3
Optical equipment	.3	.3	0
Soft drinks	22.6	0	−22.6
Gas and oil appliances		19.2	+19.2
Electric-light bulbs		8.0	+8.0
Jewelry, etc	56.2	56.2	0
Furs	20.7	20.7	0
Toilet preparations	19.7	19.7	0
Total manufacturers' and retailers' excise taxes	496.0	515.6	+19.6
Miscellaneous taxes:			
Admissions	60.0	105.9	+45.9
Cabarets, roof gardens, etc	2.0	2.0	0
Club dues	2.8	2.8	0
Safe deposit boxes	1.7	1.7	0
Telephone, telegraph, radio and cable facilities, leased wires, etc	26.6	24.3	−2.3
Telephone bill	43.6	87.2	+43.6
Transportation of persons	36.5	35.5	−1.0
Use of motor vehicles and boats	160.2	160.2	0
Bowling alleys and billiard and pool tables	2.0	1.3	−.7
Coin-operated amusement and gambling devices	8.9	9.9	+1.0
Radio broadcasting	12.5	0	−12.5
Outdoor advertising	1.7	0	−1.7
Total miscellaneous taxes	358.5	430.9	+72.3
Total excise and miscellaneous taxes	854.5	946.4	+91.9
Total miscellaneous internal revenue	1,028.7	1,087.9	+59.2
Total	3,216.4	3,679.8	+463.4

[1] All estimates show full-year effect. Estimates for corporation and individual income taxes and the gift tax are based on levels of income estimated for calendar year 1941; all other estimates are based on income levels estimated for fiscal year 1942.

[2] Excluding nonrecurring floor stocks taxes collectible only in fiscal year 1942—distilled spirits, $38,000,000; wines, $1,000,000 under House bill, $2,900,000 under Senate Finance Committee agreement; matches, $700,000; tires and tubes, $6,700,000.

Treasury Department, Division of Research and Statistics, Aug. 29, 1941.

In order that a more complete summary of the entire revenue may be obtained, the following tables set forth the estimated receipts under present law coupled with those expected under the committee bill. The first table deals with the income and excess-profits taxes and the second sets out the estate, gift, capital stock, and excise taxes.

Income taxes—estimated calendar year 1941 liabilities under present law and estimated increased income tax liabilities under a full year effect of the income tax provisions of the revenue bill of 1941 (H. R. 5417) [1] *at levels of income estimated for calendar year 1941*

[In thousands of dollars]

	Estimated liabilities under present law	Estimated increase or decrease (−) due to revenue bill of 1941	Estimated total income-tax liabilities under revenue bill of 1941
Income taxes:			
Corporation normal tax	2,939,200	−501,100	2,438,100
Corporation surtax		765,200	765,200
Individual	2,223,300	1,197,200	3,420,500
Back taxes	260,000		260,000
Excess-profit tax	1,026,400	1,130,600	2,157,000
Declared value excess-profits tax	37,000		37,000
Unjust enrichment tax	4,000		4,000
Total income taxes	6,489,900	2,591,900	9,081,800

[1] As reported by the Senate Finance Committee, Sept. 2, 1941.

Treasury Department, Division of Research and Statistics, Sept. 2, 1941.

Miscellaneous internal revenue—Estimated fiscal year 1942 receipts under present law [1] *and estimated full year effect of the revenue bill of 1941 (H. R. 5417)* [2] *at levels of income estimated for fiscal year 1942*

[Thousands of dollars]

	Estimated receipts under present law	Estimated increase or decrease (−) due to revenue bill of 1941 [2]	Estimated total receipts under revenue bill of 1941 [2]
		Hypothetical full year effect [3]	Hypothetical fiscal year [3]
Capital-stock tax	193,400	−16,100	177,300
Estate tax	350,700	141,600	492,300
Gift tax	100,000	16,000	116,000
Liquor taxes:			
Distilled spirits (excise tax)	458,800	123,000	581,800
Fermented malt liquors	330,800		330,800
Rectification tax	12,800		12,800
Wines (domestic and imported) (excise tax)	15,200	14,400	29,600
Container stamps	10,400		10,400
Special taxes in connection with liquor occupations	10,200		10,200
All other	1,300		1,300
Total liquor taxes	839,500	137,400	976,900
Tobacco taxes:			
Cigarettes (small)	645,100		645,100
Cigars (large)	13,900		13,900
Tobacco (chewing and smoking)	56,100		56,100
Snuff	6,800		6,800
Cigarette paper and tubes	1,500		1,500
All other	130		130
Total tobacco taxes	723,530		723,530

[1] Detail of estimates released in summary form by the Bureau of the Budget, June 1, 1941.
[2] As reported by the Senate Finance Committee, Sept. 2, 1941.
[3] Assuming that all provisions of the law were fully reflected in receipts for an entire year.

Miscellaneous internal revenue—Estimated fiscal year 1942 receipts under present law and estimated full year effect of the revenue bill of 1941 (H. R. 5417) at levels of income estimated for fiscal year 1942—Continued.

[Thousands of dollars]

	Estimated receipts under present law	Estimated increase or decrease (−) due to revenue bill of 1941	Estimated total receipts under revenue bill of 1941
		Hypothetical full year effect	Hypothetical fiscal year
Stamp taxes:			
Issues of securities, bond transfers, and deeds of conveyance	25,300		25,300
Stock transfers	14,000		14,000
Playing cards	4,800	1,000	5,800
Silver bullion sales or transfers	80		80
Total stamp taxes	44,180	1,000	45,180
Manufacturers' excise taxes:			
Lubricating oils	37,100		37,100
Gasoline	399,800		399,800
Electrical energy	51,400		51,400
Tires and inner tubes	54,200	44,600	98,800
Automobile trucks	12,400	16,100	28,500
Passenger automobiles and motorcycles	73,400	72,200	145,600
Parts and accessories for automobiles	13,300		13,300
Radio sets, etc	7,900	9,400	17,300
Mechanical refrigerators	12,300	16,600	28,900
Firearms, shells, pistols, and revolvers	5,400		5,400
Matches		8,200	8,200
Electrical appliances		12,600	12,600
Phonographs and phonograph records		4,500	4,500
Musical instruments		3,600	3,600
Sporting goods		8,200	8,200
Luggage		4,500	4,500
Photographic apparatus		9,900	9,900
Electric signs		2,700	2,700
Business and store machines		13,000	13,000
Washing machines		5,700	5,700
Rubber articles		21,300	21,300
Optical equipment		300	300
Gas and oil appliances		19,200	19,200
Electric light bulbs		8,000	8,000
Toilet preparations	8,800	−8,800	
Total manufacturers' excise taxes	676,000	271,800	947,800
Retailers' excise taxes:			
Jewelry, etc		56,200	56,200
Furs		20,700	20,700
Toilet preparations		28,500	28,500
Total retailers' excise taxes		105,400	105,400
Miscellaneous taxes:			
Telephone, telegraph, radio, and cable facilities, leased wires, etc	28,000	24,300	52,300
Transportation of oil by pipe lines	13,300		13,300
Leases of safe-deposit boxes	2,200	1,700	3,900
Admissions to theaters, concerts, cabarets, etc	83,100	107,900	191,000
Club dues and initiation fees	7,000	2,800	9,800
Oleomargarine, etc., including special taxes, and adulterated butter	2,300		2,300
Coconut and other vegetable oils processed	4,500		4,500
Bituminous-coal tax	4,900		4,900
Sugar tax	62,400		62,400
Transportation of persons		35,500	35,500
Use of motor vehicles and boats		160,200	160,200
Bowling alleys, and billiard and pool tables		1,300	1,300
Coin-operated amusement and gaming devices		9,900	9,900
Radio broadcasting		0	0
Outdoor advertising		0	0
Telephone bill		87,200	87,200
All other, including repealed taxes	620		620
Total miscellaneous taxes	208,320	430,800	639,120
Total miscellaneous internal revenue (other than capital stock, estate, and gift taxes)	2,491,530	946,400	3,437,930
Total miscellaneous internal revenue	3,135,630	1,087,900	4,223,530

Treasury Department, Division of Research and Statistics, Sept. 2, 1941.

Summary of Principal Changes

I. INDIVIDUAL INCOME TAX

1. Reduced personal exemptions.—The House bill made no changes in the personal exemptions provided by existing law. The committee bill reduces the personal exemptions in the case of married persons from $2,000 to $1,500 and, in the case of single persons, from $800 to $750. This broadening of the income tax base is thought to be desirable particularly during the present emergency in order that the greatest possible number of persons may contribute directly to the costs of the defense program.

It has been estimated by the Treasury Department that this reduction in the personal exemptions will require the filing of 4,911,000 new income tax returns and will increase the number of income-tax payers by 2,256,000. Under the House bill, it is estimated that 17,107,000 individual income tax returns would have been filed, of which 10,925,000 would have been taxable. Under the Finance Committee bill it is estimated that 22,108,000 individual income tax returns will be filed of which 13,181,000 will be taxable.

The decrease in the personal exemptions has the effect of increasing the tax throughout the bracket structure. This increase is substantial in the lower brackets. The following table sets out the additional burden on single persons and on married persons without dependents caused solely by the reduced exemptions:

Additional tax due to decreased exemptions

Net income	Single man	Married man—No dependents	Net income	Single man	Married man—No dependents
$750			$15,000	$17.60	$159.50
$800	$2.75		$20,000	20.35	203.50
$900	4.95		$25,000	23.65	236.50
$1,000	4.95		$30,000	25.30	253.00
$1,500	4.95		$50,000	29.70	297.00
$2,000	4.95	$40.70	$60,000	31.35	313.50
$2,500	4.95	49.50	$80,000	33.55	335.50
$3,000	6.60	49.50	$100,000	35.75	357.50
$4,000	6.60	66.00	$150,000	29.70	297.00
$5,000	8.25	66.00	$250,000	30.60	306.00
$6,000	8.25	82.50	$500,000	33.30	333.00
$7,000	10.45	82.50	$750,000	33.75	337.50
$8,000	10.45	104.50	$1,000,000	34.20	342.00
$9,000	12.65	104.50	$2,000,000	34.65	346.50
$10,000	12.65	126.50	$5,000,000	35.10	351.00

2. *Integration of defense tax.*—Under the existing law and under the House bill the 10-percent defense tax is added to the tax computed under the rates provided in the normal and surtax schedule. The House bill makes the defense tax permanent. Your committee recommends and the committee bill so provides that the defense tax be integrated into the basic surtax rates. In order to avoid the use of fractional percentages, the surtax rates have been carried to the nearest whole percentage figure.

The following table shows the increase in the surtax rates and cumulative surtax burden caused solely by the integration of the defense tax:

Comparison of surtax rates and cumulative surtax

Surtax net income classes	Surtax rates			Cumulative surtax on higher amount shown in bracket		
	Present law	House bill	Finance Committee bill	Present law	House bill	Finance Committee bill
	Percent	*Percent*	*Percent*			
$0 to $2,000	----------	5	6	----------	$100	$120
$2,000 to $4,000	----------	8	9	----------	260	300
$4,000 to $6,000	4	11	13	$80	480	560
$6,000 to $8,000	6	15	17	200	780	900
$8,000 to $10,000	8	19	21	360	1,160	1,320
$10,000 to $12,000	10	22	25	560	1,600	1,820
$12,000 to $14,000	12	25	29	800	2,100	2,400
$14,000 to $16,000	15	28	32	1,100	2,660	3,040
$16,000 to $18,000	18	31	35	1,460	3,280	3,740
$18,000 to $20,000	21	33	38	1,880	3,940	4,500
$20,000 to $22,000	24	36	41	2,360	4,660	5,320
$22,000 to $26,000	27	39	44	3,440	6,220	7,080
$26,000 to $32,000	30	42	47	5,240	8,740	9,900
$32,000 to $38,000	33	45	50	7,220	11,440	12,900
$38,000 to $44,000	36	48	53	9,380	14,320	16,080
$44,000 to $50,000	40	50	55	11,780	17,320	19,380
$50,000 to $60,000	44	53	57	16,180	22,620	25,080
$60,000 to $70,000	47	55	59	20,880	28,120	30,980
$70,000 to $80,000	50	57	61	25,880	33,820	37,080
$80,000 to $90,000	53	59	63	31,180	39,720	43,380
$90,000 to $100,000	56	61	64	36,780	45,820	49,780
$100,000 to $150,000	58	62	65	65,780	76,820	82,280
$150,000 to $200,000	60	63	66	95,780	108,320	115,280
$200,000 to $250,000	62	64	67	126,780	140,320	148,780
$250,000 to $300,000	64	66	69	158,780	173,320	183,280
$300,000 to $400,000	66	68	71	224,780	241,320	254,280
$400,000 to $500,000	68	70	72	292,780	311,320	326,280
$500,000 to $750,000	70	71	73	467,780	488,820	508,780
$750,000 to $1,000,000	72	72	74	647,780	668,820	693,780
$1,000,000 to $2,000,000	73	73	75	1,377,780	1,398,820	1,443,780
$2,000,000 to $5,000,000	74	74	76	3,597,780	3,618,820	3,723,780
Over $5,000,000	75	75	77	----------	----------	----------

The following table sets out the effect of the integration of the defense tax by showing the increases or decreases in tax caused solely thereby:

Net income	Single man	Married man—no dependents	Net income	Single man	Married man—no dependents
$750	----------	----------	$15,000	$41.60	$34.10
$800	$0.25	----------	$20,000	81.85	72.10
$900	.51	----------	$25,000	127.35	122.10
$1,000	.65	----------	$30,000	152.60	149.60
$1,500	1.35	----------	$50,000	136.60	139.60
$2,000	2.05	$1.30	$60,000	−23.65	−10.90
$2,500	2.75	2.00	$80,000	−420.65	−404.90
$3,000	2.70	2.70	$100,000	−990.15	−963.90
$4,000	1.10	2.60	$150,000	−1,335.60	−1,407.60
$5,000	1.25	1.00	$250,000	−1,587.10	−1,660.60
$6,000	6.65	2.90	$500,000	−1,984.10	−2,054.60
$7,000	11.05	8.30	$750,000	−3,234.85	−3,306.10
$8,000	12.45	11.70	$1,000,000	−4,235.60	−4,307.60
$9,000	12.85	13.10	$2,000,000	−7,236.35	−7,309.10
$10,000	10.25	12.50	$5,000,000	−13,237.10	−13,310.60

The following tables compare the tax burdens and the effective rates of the present law, the House bill and the Finance Committee bill on specified net incomes of both married and single persons:

Comparison of individual income tax on specified net incomes (all income earned) under present law, House bill and Finance Committee bill

Net income	Single person			Married person		
	Present law	House bill	Finance Committee bill	Present law	House bill	Finance Committee bill
$750						
$800			$3.00			
$900	$0.44	$5.94	11.40			
$1,000	4.40	15.40	21.00			
$1,500	24.20	62.70	69.00			
$1,600	28.16	72.16	78.60			$6.00
$2,000	44.00	110.00	117.00			42.00
$2,500	63.80	157.30	165.00	$11.00	$38.50	90.00
$3,000	83.60	211.20	220.50	30.80	85.80	138.00
$4,000	123.20	338.80	346.50	70.40	180.40	249.00
$5,000	171.60	473.00	482.50	110.00	308.00	375.00
$6,000	255.20	633.60	648.50	149.60	435.60	521.00
$7,000	343.20	803.00	824.50	233.20	596.20	687.00
$8,000	448.80	1,007.00	1,030.50	316.80	756.80	873.00
$9,000	558.80	1,221.00	1,246.50	422.40	961.40	1,079.00
$10,000	686.40	1,469.60	1,492.50	528.00	1,166.00	1,305.00
$15,000	1,476.20	2,934.80	2,994.00	1,258.40	2,545.40	2,739.00
$20,000	2,666.40	4,826.80	4,929.00	2,336.40	4,338.40	4,614.00
$25,000	4,252.60	7,073.00	7,224.00	3,843.40	6,505.40	6,864.00
$30,000	6,063.20	9,543.60	9,721.50	5,614.40	8,936.40	9,339.00
$50,000	14,709.20	20,715.20	20,881.50	14,128.40	20,002.40	20,439.00
$60,000	19,954.00	26,958.80	26,966.50	19,320.40	26,206.40	26,509.00
$80,000	31,451.20	40,123.60	39,736.50	30,738.40	39,318.40	39,249.00
$100,000	44,268.40	54,168.40	53,214.00	43,476.40	53,310.40	52,704.00
$150,000	78,350.80	89,012.40	87,706.50	77,532.40	88,299.60	87,189.00
$250,000	147,576.40	159,748.00	158,191.50	146,863.60	159,013.60	157,659.00
$500,000	330,933.20	347,604.80	345,654.00	330,155.60	346,805.60	345,084.00
$750,000	522,418.80	541,347.60	538,146.50	521,619.60	540,537.60	537,569.00
$1,000,000	718,404.40	737,340.40	733,139.00	717,583.60	736,519.60	732,554.00
$2,000,000	1,511,397.20	1,530,333.20	1,523,131.50	1,510,565.60	1,529,501.60	1,522,539.00
$5,000,000	3,917,390.00	3,936,326.00	3,923,124.00	3,916,547.60	3,935,483.60	3,922,524.00

Comparison of effective rates of individual income tax on specified net incomes (all income earned) under present law, House bill, and Finance Committee bill

Net income	Single person			Married person, no dependents		
	Present law	House bill	Finance Committee bill	Present law	House bill	Finance Committee bill
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
$750						
$800			0.375			
$900	0.048	0.660	1.266			
$1,000	.440	1.540	2.100			
$1,500	1.613	4.180	4.600			
$1,600	1.760	4.510	4.912			0.375
$2,000	2.200	5.500	5.850			2.100
$2,500	2.552	6.292	6.600	0.440	1.540	3.600
$3,000	2.786	7.040	7.350	1.026	2.860	4.600
$4,000	3.080	8.470	8.662	1.760	4.510	6.225
$5,000	3.432	9.460	9.650	2.200	6.160	7.500
$6,000	4.253	10.560	10.808	2.493	7.260	8.683
$7,000	4.902	11.471	11.778	3.331	8.517	9.814
$8,000	5.610	12.595	12.881	3.960	9.460	10.912
$9,000	6.208	13.566	13.850	4.693	10.682	11.988
$10,000	6.864	14.696	14.925	5.280	11.660	13.050
$15,000	9.841	19.565	19.960	8.389	16.969	18.260
$20,000	13.332	24.134	24.645	11.682	21.692	23.070
$25,000	17.010	28.292	28.896	15.373	26.021	27.456
$30,000	20.210	31.812	32.405	18.714	29.788	31.130
$50,000	29.418	41.430	41.763	28.256	40.004	40.878
$60,000	33.256	44.931	44.944	32.200	43.677	44.181
$80,000	39.314	50.154	49.670	38.423	49.148	49.061
$100,000	44.268	54.168	53.214	43.476	53.310	52.704
$150,000	52.233	59.341	58.471	51.688	58.866	58.126
$250,000	59.030	63.899	63.276	58.745	63.605	63.063
$500,000	66.186	69.529	69.130	66.031	69.361	69.016
$750,000	69.665	72.179	71.752	69.549	72.071	71.675
$1,000,000	71.840	73.734	73.313	71.758	73.651	73.255
$2,000,000	75.569	76.516	76.156	75.528	76.475	76.126
$5,000,000	78.347	78.726	78.462	78.330	78.709	78.450

3. *Returns where gross income is $3,000 or less.*—In order that persons in the lower-income tax brackets, particularly those brought in by the reduction of the personal exemptions, may be caused a minimum of difficulty in filling out their returns, the optional use of a simplified return is provided where the gross income of the taxpayer does not exceed $3,000. If the taxpayer elects to use this simplified plan, the amount of the tax may be readily ascertained by reference to a table contained in the bill. This simplified return may be used only where the taxpayer's income is derived solely from salaries, wages, compensation for personal services, dividends, interest, rent, annuities, or royalties. If the taxpayer elects to use this method, no deductions or credits against net income are allowed. In lieu of these deductions and credits, the tax provided in the table represents a reduction of 10 percent of the tax that would otherwise be payable without such deductions or credits. This 10-percent reduction has been found to be the effect of the average amount of deductions taken by persons in the lower-income brackets. One set of rates is provided for married persons or heads of families and another is provided for single persons (not heads of families). In determining the amount payable, the taxpayer in either case reduces his gross income by $400 for each dependent, then by reference to the appropriate table he ascertains the tax set out opposite the amount so determined.

It should be kept in mind that the use of the simplified return is at the option of the taxpayer and he elects each year whether to use this method or to file under the general provisions. However, once the return for any year has been filed under this method, the election shall be irrevocable, and if the taxpayer files under the general provisions for any year he may not thereafter elect for such year to be taxed under the simplified method. Nonresident alien individuals, estates, or trusts are not allowed to use the simplified method.

The following table taken from the bill sets out the amount of tax to be paid on specified amounts of income:

If the gross income is over—	But not over—	The tax shall be—		If the gross income is over—	But not over—	The tax shall be—	
		Single person (not head of a family)	Head of family or married person			Single person (not head of a family)	Head of family or married person
$1	$750	$0	$0	$1,325	1,350	48	0
$750	775	1	0	$1,350	1,375	50	0
$775	800	2	0	$1,375	1,400	52	0
$800	825	3	0	$1,400	1,425	55	0
$825	850	5	0	$1,425	1,450	57	0
$850	875	7	0	$1,450	1,475	59	0
$875	900	9	0	$1,475	1,500	61	0
$900	925	11	0	$1,500	1,525	63	1
$925	950	14	0	$1,525	1,550	65	2
$950	975	16	0	$1,550	1,575	68	3
$975	1,000	18	0	$1,575	1,600	70	5
$1,000	1,025	20	0	$1,600	1,625	72	6
$1,025	1,050	22	0	$1,625	1,650	74	7
$1,050	1,075	24	0	$1,650	1,675	76	9
$1,075	1,100	26	0	$1,675	1,700	78	11
$1,100	1,125	29	0	$1,700	1,725	80	13
$1,125	1,150	31	0	$1,725	1,750	83	15
$1,150	1,175	33	0	$1,750	1,775	85	17
$1,175	1,200	35	0	$1,775	1,800	87	19
$1,200	1,225	37	0	$1,800	1,825	89	22
$1,225	1,250	39	0	$1,825	1,850	91	24
$1,250	1,275	42	0	$1,850	1,875	93	26
$1,275	1,300	44	0	$1,875	1,900	96	28
$1,300	1,325	46	0	$1,900	1,925	98	30

If the gross income is over—	But not over—	The tax shall be—	
		Single person (not head of a family)	Head of family or married person
$1,925	1,950	100	32
$1,950	1,975	102	35
$1,975	2,000	104	37
$2,000	2,025	106	39
$2,025	2,050	109	41
$2,050	2,075	111	43
$2,075	2,100	113	45
$2,100	2,125	115	48
$2,125	2,150	117	50
$2,150	2,175	119	52
$2,175	2,200	122	54
$2,200	2,225	124	56
$2,225	2,250	126	58
$2,250	2,275	128	60
$2,275	2,300	130	63
$2,300	2,325	132	65
$2,325	2,350	134	67
$2,350	2,375	137	69
$2,375	2,400	139	71
$2,400	2,425	141	73
$2,425	2,450	143	76
$2,450	2,475	145	78
$2,475	2,500	147	80
$2,500	2,525	150	82
$2,525	2,550	152	84
$2,550	2,575	154	86
$2,575	2,600	156	89
$2,600	2,625	158	91
$2,625	2,650	160	93
$2,650	2,675	163	95
$2,675	2,700	165	97
$2,700	2,725	167	99
$2,725	2,750	169	102
$2,750	2,775	172	104
$2,775	2,800	174	106
$2,800	2,825	177	108
$2,825	2,850	180	110
$2,850	2,875	183	112
$2,875	2,900	186	114
$2,900	2,925	189	117
$2,925	2,950	191	119
$2,950	2,975	194	121
$2,975	3,000	197	123

4. *Community income.*—Ever since the advent of the income tax, the disparity in the taxation of income in the community-property States as compared with that in the non-community-property States has caused considerable concern. This situation has become more accentuated as the graduated surtax rates have been increased from time to time. Married persons in the community-property States under existing law are able to effect substantial tax savings as compared with married persons in the other States. Remedies for this inequitable situation have been frequently recommended to the Congress by the Treasury Department and by various other tax experts. With the substantial increases in the surtax rates contained in the bill, these inequities become more apparent and their termination more desirable.

Consequently, your committee bill provides a method whereby taxpayers in community-property States are placed on a parity with all other taxpayers and will pay the same amount of tax as do individuals similarly situated in the non-community-property States.

The following table shows the Federal income-tax benefits which accrue to the earner of income in a community-property State as compared with the earner of income in a non-community-property State:

Tax on specified earned net incomes

Earned net incomes	Tax under Finance Committee bill	Tax if equally divided between husband and wife	Tax savings in community-property States	Earned net incomes	Tax under Finance Committee bill	Tax if equally divided between husband and wife	Tax savings in community-property States
$3,500	$186	$186		$30,000	$9,339	$5,988	$3,351
$4,000	249	234	$15	$50,000	20,439	14,448	5,991
$5,000	375	330	45	$60,000	26,509	19,443	7,066
$6,000	521	441	80	$80,000	39,294	30,153	9,141
$7,000	687	567	120	$100,000	52,704	41,763	10,941
$8,000	873	693	180	$150,000	87,189	72,973	14,216
$9,000	1,079	819	260	$250,000	157,659	140,913	16,746
$10,000	1,305	965	340	$500,000	345,084	316,383	28,701
$12,000	1,817	1,297	520	$750,000	537,569	501,823	35,746
$15,000	2,739	1,855	884	$1,000,000	732,554	691,308	41,246
$18,000	3,819	2,493	1,326	$2,000,000	1,522,539	1,466,278	56,261
$20,000	4,614	2,985	1,629	$5,000,000	3,922,524	3,846,248	76,276
$25,000	6,864	4,355	2,509				

It will be noted that an individual with a net income of $10,000 saves $340 Federal tax solely by reason of being a resident of a community-property State. An individual with an income of $5,000 saves $45. An individual with an income of $30,000 saves $3,351, and an individual with an income of $500,000 saves $28,701.

There are only a few persons in the community-property States who derive any Federal tax benefit out of the community-property system. This is shown by the following tables:

Returns filed in community-property States in 1938

	Total number of returns	Community-property returns	Percent of total
Arizona	20,447	713	3.49
California	523,696	22,859	4.36
Idaho	13,223	411	3.11
Louisiana	59,019	3,776	6.40
Nevada	8,969	339	3.78
New Mexico	13,690	608	4.44
Texas	205,254	13,375	6.52
Washington [1]	106,472	3,336	3.13
Total	950,770	45,417	4.78

[1] Includes Alaska.

Net income shown on returns filed in community-property States, 1938

State	Total net income, all returns	Net income, community-property returns	Percent of total
Arizona	$56,359,000	$6,832,000	12.12
California	1,569,974,000	274,429,000	17.48
Idaho	34,180,000	3,489,000	10.21
Louisiana	191,541,000	43,137,000	22.52
Nevada	27,989,000	3,712,000	13.26
New Mexico	39,211,000	5,472,000	10.50
Texas	683,096,000	162,973,000	23.86
Washington [1]	275,061,000	30,775,000	11.19
Total	2,877,411,000	530,819,000	18.45

[1] Includes Alaska.

Source: Statistics of Income 1938.

Comparison of number of community-property returns filed in 1938 by net-income classes to total number of returns filed in the 8 community-property States

Net-income class	Total number of returns filed	Community-property returns	Percent community-property returns to total returns
Under $5,000	858,882		0
$5,000 to $10,000	69,789	30,534	43.75
$10,000 to $15,000	10,907	7,384	67.70
$15,000 to $25,000	6,461	4,381	67.81
$25,000 to $50,000	3,487	2,331	66.85
$50,000 to $100,000	969	636	65.63
Over $100,000	275	151	54.91
Total	950,770	45,417	4.78

Source: Statistics of Income, 1938.

Not only does this tax saving benefit only a few individuals in the community-property States, but, as shown by the following table, less than 1 percent of the total returns filed in the country represent community-property returns.

Individual returns with net income (excluding fiduciary returns), 1938, by sex and family relationship: number of returns, net income, and percentages

Family relationship	Returns		Net income	
	Number	Percent of total	Amount (thousands of dollars)	Percent of total
Joint returns of husbands, wives, and dependent children, and returns of either husband or wife when no other return is filed	2,866,026	46.60	10,001,384	53.60
Separate returns of husbands and wives:				
Men	152,654	2.48	1,593,939	8.54
Women	153,143	2.49	693,027	3.71
Heads of families:				
Single men and married men not living with wives	395,073	6.42	1,040,372	5.58
Single women and married women not living with husbands	210,143	3.42	472,994	2.53
Not heads of families:				
Single men and married men not living with wives	1,418,385	23.06	2,611,197	13.99
Single women and married women not living with husbands	909,935	14.79	1,717,196	9.20
Community-property returns	45,417	.74	530,819	2.85
Total, individual returns with net income	6,150,776	100.00	18,660,929	100.00

Source: Statistics of Income, 1938.

5. *Alimony and separate maintenance payments.*—Under the existing law periodic payments of alimony or for separate maintenance are not deductible from the gross income of the spouse making such payments and are not taxable to the spouse receiving them. Thus, for example, a husband is taxed upon his entire income even though a considerable amount thereof may be going periodically to his spouse or to his former spouse under a court decree or under a written instrument incident to a divorce or separation. This situation has resulted in substantial hardship in certain cases. Your committee bill therefore provides that periodic payments of alimony or for separate maintenance shall, in taxable years beginning after December 31, 1941, be includible in the gross income of the recipient and shall be deductible

from the gross income of the payor. Likewise, in the case of trusts for the payment of alimony or separate maintenance, the bill provides that the trust income shall be taxed to the beneficiary, rather than to the grantor.

II. Corporation Income and Excess-Profits Taxes

1. CORPORATION NORMAL TAX

The existing rate of normal tax applicable to corporate incomes generally is equivalent to 24 percent. This percentage is the sum of 22.1 and 1.9, the former being the basic rate applicable to net incomes for taxable years beginning after December 31, 1939, and the latter being the 10 percent increase over the basic rate of 19 percent, which was made applicable by the Revenue Act of 1940 (though subsequently increased to 22.1 by the Second Revenue Act of 1940) to taxable years beginning after December 31, 1939. The integration of the defense-tax rate of 1.9 percent with the basic rate removes considerable confusion and at the same time accomplishes the result of the House bill in making the defense tax permanent.

The existing rates (including the defense-tax rates) applicable to corporate net incomes of $25,000 or under are graduated as follows: 14.85 percent on normal tax net incomes not in excess of $5,000; 16.5 percent on the portion of such net income in excess of $5,000 and not in excess of $20,000; and 18.7 percent on the excess over $20,000. The committee bill integrates the defense tax applicable to such net incomes and at the same time rounds them off to 15, 17, and 19 percent, respectively.

These rate changes require an appropriate rate change in the tax on corporate net incomes somewhat in excess of $25,000. That tax is the lesser of an amount equivalent to 24 percent of the total net income and an amount equivalent to the sum of $4,250 and 37 percent of the net income in excess of $25,000. The amount of net income upon which the tax is the same, under whichever of these two methods it is computed, is $38,461.54. The purpose of this so-called notch provision is, of course, to avoid an abrupt ascent from an effective rate of 17 percent (the tax on a net income of $25,000 is $4,250, or 17 percent) to one of 24 percent.

2. CORPORATION SURTAX

The House bill imposed upon corporations a surtax of 5 percent of the first $25,000 of surtax net income and 6 percent of the balance. Your committee bill increases these rates to 6 and 7 percent, respectively. As stated in the report of the Committee on Ways and Means, the surtax is employed as the only means of reaching income from the large volume of partially tax exempt Federal securities held by corporations. Of the total amount outstanding, nearly $31,000,000,000, over 51 percent is held by banks and nearly 20 percent by insurance companies.

Your committee also made a change in the corporate surtax base, the purpose of this change being to effect the equitable operation of the tax. Under the House bill, corporation surtax net income is defined as the net income minus the credit for dividends received provided for in section 26 (b) of the Internal Revenue Code. The credit allowed is 85 percent of the amount of such dividends but is subject

to the limitation that it may not exceed 85 percent of the adjusted net income. Adjusted net income, for the purposes of the corporate income tax, is defined as the net income minus the credit for interest on obligations of the United States and its instrumentalities which is allowed to an individual as a credit for the purposes of his normal tax. Inasmuch as such interest is included by the bill in surtax net income for the purposes of the corporate surtax, it is thought to be in the interest of the fair operation of the tax to substitute for the limitation under the House bill a limitation based on the amount of the net income.

3. EXCESS-PROFITS TAX

Special 10 percent excess-profits tax.—Your committee bill eliminates the provision of the House bill imposing a special tax of 10 percent upon the excess of the adjusted excess-profits net income computed under the income credit over the adjusted excess-profits net income computed under the invested capital credit.

While in sympathy with the stated objective of the proposed tax—to reach profits which, though substantially in excess of those of the base period, escape excess-profits tax by reason of the allowance of the credit based on invested capital—your committee believes that it is inconsistent with the fundamental policy of Congress as expressed in the existing excess-profits tax law. The inconsistency would be more pronounced, in fact, under both the House and the Finance Committee bills, in view of the fact that both disallow normal tax as a deduction in determining excess profits net income. The effect of the disallowance upon the excess-profits credit, especially in the case of the credit computed on the basis of invested capital, is to improve the effectiveness of the excess-profits tax and, therefore, correspondingly to reduce the effectiveness of the invested capital credit as a relief measure.

The elimination of this special 10-percent tax is also justifiable, in the opinion of your committee, on the ground that in many cases the earnings of the base period do not provide the proper measure for the determination of excess profits in the taxable period. Many circumstances may have existed in the base period as a result of which earnings at that time were quite abnormal. In the case of corporations organized in the first or a subsequent year of the base period, the average-earnings credit would likewise be entirely inadequate.

In the absence of this tax there is no need for the complementary provision of the House bill under which the disclaimer of credit was restricted to the invested capital credit.

Corporations mining strategic metals.—Section 206 of the House bill repeals section 731 of the Internal Revenue Code, a provision exempting from excess-profits tax income derived from the mining of tungsten, quicksilver, manganese, platinum, antimony, chromite, or tin. In striking out this section of the House bill your committee leaves the existing exemption unchanged.

It was felt that the discontinuance of the exemption would operate unfairly to corporations which had proceeded in the establishment and extension of the mining properties affected. These enterprises, moreover, have the character largely of emergency enterprises, and the purpose of the existing provision was mainly to encourage the discovery and production of the metals mentioned. It is conceded that

the production of such metals in normal times is largely in foreign countries and that after the existing emergency is over their importation will be resumed.

Reversal of the deduction for income and excess-profits taxes.—While your committee bill makes no change in this provision of the House bill, it is felt that the following explanation taken from the report of the Committee on Ways and Means relative to this provision may be of value.

Under existing law, the income tax is allowed as a deduction in the computation of the excess-profits tax. It seems unfair to allow that part of the income tax which is computed on income which is not subject to the excess-profits tax to reduce the excess-profits net income. Canada allows only that part of the income tax which is computed upon income subject to the excess-profits tax. Under the World War Act, the excess-profits tax was allowed as a deduction in computing the normal tax, but the normal tax was not allowed as a deduction in computing the excess-profits tax. This is also the rule which is now applied by the British. The tax result in Canada is practically the same as the British rule and our 1918 rule. However, it is believed that the World War rule is much simpler in its application. Your committee has, therefore, deemed it advisable to return to the 1918 rule, and has disallowed the deduction of income taxes, both in the base period and in the taxable year, in computing the excess-profits tax. The deduction is allowed in computing both the normal tax and the surtax. The effect of the reversal of the deduction is that the 8-percent credit on invested capital provided in the bill is equivalent to a credit on invested capital of 5.6 percent after deduction of the normal tax and surtax, and the 7-percent credit on invested capital is equivalent to a credit on invested capital of 4.9 percent after deduction of the normal tax and surtax.

In lieu, however, of the example contained in the Ways and Means Committee report showing the effect of this provision, the following example is substituted so as to reflect the changes in surtax rates made by your committee bill:

Corporation with an excess-profits credit of $10,000,000, either under the average-earnings or invested-capital method, and a taxable year's net income of $12,000,000, or $2,000,000 in excess of its excess-profits credit which it made from defense contracts.

WITHOUT REVERSAL OF CREDIT		
Net income		$12, 000, 000
Less normal and surtax:		
Normal tax at 24 percent	$2, 880, 000	
Surtax 6 percent on first $25,000	1, 500	
7 percent on balance	838, 250	
Total normal and surtax		3, 719, 750
Net income less normal and surtax		8, 280, 250
Excess-profits credit		10, 000, 000
Excess-profits carry-over		1, 719, 750
WITH REVERSAL OF CREDIT		
Net income		12, 000, 000
Excess-profits credit		10, 000, 000
Adjusted excess-profits net income		2, 000, 000
TAX		
First $500,000	254, 000	
Balance at 60 percent	900, 000	
Total excess-profits tax		1, 154, 000

NORMAL AND SURTAX

Net income		12, 000, 000
Less excess-profits tax		1, 154, 000
Normal tax net income		10, 846, 000
Normal tax at 24 percent	$2, 603, 040	
Surtax 6 percent first $25,000	1, 500	
Balance at 7 percent	757, 470	
Total normal and surtax		3, 362, 010
Plus excess-profits tax		1, 154, 000
Total tax with reversal of credit		4, 516, 010
Total tax without reversal of credit		3, 719, 750
Increased amount of tax		796, 260

In the above case, it will be noted that without the reversal of credit this corporation, although it made an excess profit of $2,000,000 out of defense contracts, pays no excess-profits tax and would have a carry-over credit of $1,719,750 to apply against its excess profits in the following year, whereas under the reversal of credit it would pay $1,154,000 excess-profits tax, plus $3,362,101 normal and surtax, or a total of $4,516,010, or $796,260 more than it would pay without the reversal of credit.

4. EXCHANGES AND DISTRIBUTIONS IN OBEDIENCE TO ORDERS OF SECURITIES AND EXCHANGE COMMISSION

Supplement R of chapter 1 of the Internal Revenue Code contains provisions governing the nonrecognition of gain or loss and the basis for determining gain or loss upon exchanges and distributions in obedience to orders of the Securities and Exchange Commission. Section 373 of the code contains a definition of such orders, and one of the limitations under that definition is that the order must be issued after May 28, 1938, and prior to January 1, 1941. The committee bill contains a new provision under which the existing period of issuance is extended to January 1, 1943. The amendment is designed to extend the advantages of the supplement to exchanges and distributions the order for which by the Securities and Exchange Commission cannot be issued within the limited period provided for in existing law.

III. Capital Stock Tax and Declared Value Excess Profits Tax

1. CAPITAL-STOCK TAX

The House bill increased the capital-stock tax rate from $1.10 ($1 plus 10 cents defense tax) per $1,000 of adjusted declared value to $1.25, effective for the year ending June 30, 1941. In addition, the Commissioner of Internal Revenue extended the time for filing returns and paying the tax for such year until September 29, 1941. This is the longest extension of time permissible under existing law.

Your committee bill retains the rate provided in the House bill. In addition, it authorizes the Commissioner to extend the time for filing returns and paying the tax for the year ending June 30, 1941, to not more than 90 days. This will permit an extension of 30 days beyond September 29, 1941.

Under existing law corporations must declare this year a capital stock valuation binding upon them for this year and the two subsequent years. Because of the great difficulty under present conditions in estimating future income, particularly in view of the possible restrictions that may result from priorities, your committee deems it equitable to allow an annual declaration of capital stock value.

2. DECLARED VALUE EXCESS-PROFITS TAX

The House bill makes permanent the 10-percent defense tax as applied to the declared value excess-profits tax. Here, as in the income tax, it is felt desirable to integrate the defense tax into the basic declared value excess-profits rates. Thus the basic rate of 6 percent becomes $6\frac{6}{16}$ and the 12 percent rate becomes $13\frac{2}{10}$. No change in the effective rate is accomplished thereby.

IV. Estate and Gift Taxes

The House bill increased the estate and gift tax rates and made permanent the 10-percent defense tax. The Finance Committee bill retains the rate increases but integrates in these basic rates the 10-percent defense tax instead of having it apply as a separate computation. In adding 10 percent to the estate tax rates in the brackets, fractions of percentages have been avoided.

The following table shows the bracket rates under the House bill and those under the Finance Committee bill along with the cumulative tax on the higher amount shown in the bracket. It should be noted that to the tax as computed under the House bill the defense tax adds 10 percent of the amount of the tax so computed, while under the Finance Committee bill the defense tax is integated into the rates shown.

Net estate	House bill		Finance Committee bill	
	Bracket rate	Cumulative tax on higher amount	Bracket rate	Cumulative tax on higher amount
	Percent		*Percent*	
0 to $5,000	3	$150	3	$150
$5,000 to $10,000	7	500	7	500
$10,000 to $20,000	10	1,500	11	1,600
$20,000 to $30,000	13	2,800	14	3,000
$30,000 to $40,000	16	4,400	18	4,800
$40,000 to $50,000	20	6,400	22	7,000
$50,000 to $60,000	23	8,700	25	9,500
$60,000 to $100,000	25	18,700	28	20,700
$100,000 to $250,000	27	59,200	30	65,700
$250,000 to $500,000	29	131,700	32	145,700
$500,000 to $750,000	32	211,700	35	233,200
$750,000 to $1,000,000	34	296,700	37	325,700
$1,000,000 to $1,250,000	36	386,700	39	423,200
$1,250,000 to $1,500,000	38	481,700	42	528,200
$1,500,000 to $2,000,000	41	686,700	45	753,200
$2,000,000 to $2,500,000	45	911,700	49	998,200
$2,500,000 to $3,000,000	48	1,151,700	53	1,263,200
$3,000,000 to $3,500,000	51	1,406,700	56	1,543,200
$3,500,000 to $4,000,000	54	1,676,700	59	1,838,200
$4,000,000 to $5,000,000	58	2,256,700	63	2,468,200
$5,000,000 to $6,000,000	61	2,866,700	67	3,138,200
$6,000,000 to $7,000,000	64	3,506,700	70	3,838,200
$7,000,000 to $8,000,000	66	4,166,700	73	4,568,200
$8,000,000 to $10,000,000	69	5,546,700	76	6,088,200
Over $10,000,000	70		77	

The following table shows a comparison of the Federal estate tax burden (before allowance of credit for State death taxes) under existing law, the House bill, and under the Finance Committee bill upon net estates (before exemption) of selected sizes:

Net estate before exemption	Amount of tax			Effective rate			Increase in tax over present law			
							Amount		Percent	
	Present law [1]	House bill [1]	Finance Committee bill	Present law [1]	House bill [1]	Finance Committee bill	House bill [1]	Finance Committee bill	House bill [1]	Finance Committee bill
				Percent	*Percent*	*Percent*				
$50,000	$220	$550	$500	0.4	1.1	1.0	$330	$280	150.0	127.3
$60,000	660	1,650	1,600	1.1	2.8	2.7	990	940	150.0	142.4
$80,000	2,200	4,840	4,800	2.8	6.1	6.0	2,640	2,600	120.0	118.2
$100,000	4,620	9,570	9,500	4.6	9.6	9.5	4,950	4,880	107.1	105.6
$200,000	21,660	38,270	38,700	10.8	19.1	19.4	16,610	17,040	76.7	78.7
$400,000	63,780	99,530	100,900	15.9	24.9	25.2	35,750	37,120	56.1	58.2
$600,000	112,340	164,590	166,700	18.7	27.4	27.8	52,250	54,360	46.5	48.4
$800,000	167,340	234,330	236,900	20.9	29.3	29.6	66,990	69,560	40.0	41.6
$1,000,000	228,780	308,090	310,900	22.9	30.8	31.1	79,310	82,120	34.7	35.9
$2,000,000	588,000	727,370	735,200	29.4	36.3	36.8	139,370	147,200	23.7	25.0
$4,000,000	1,499,640	1,792,570	1,814,600	37.5	44.8	45.4	292,930	314,960	19.5	21.0
$6,000,000	2,655,140	3,075,450	3,111,400	44.3	51.3	51.9	420,310	456,260	15.8	17.2
$10,000,000	5,323,500	5,964,250	6,057,800	53.2	59.6	60.6	640,750	734,300	12.0	13.8
$20,000,000	12,532,700	13,503,890	13,757,400	62.7	67.5	68.8	971,190	1,224,700	7.7	9.8
$40,000,000	27,391,820	28,583,890	29,157,400	68.5	71.4	72.9	1,192,070	1,765,580	4.4	6.4
$60,000,000	42,361,380	43,663,890	44,557,400	70.6	72.8	74.3	1,302,510	2,196,020	3.1	5.2
$100,000,000	72,521,380	73,823,890	75,357,400	72.5	73.8	75.4	1,302,510	2,836,020	1.8	3.9

[1] Includes the defense tax which is equal to 10 percent of the Federal tax after allowance of the credit for State death taxes (the credit for State death taxes is assumed to be 80 percent of the tax imposed under the 1926 act).

As under both the existing law and the House bill, the gift tax rates are fixed at three-fourths of the comparable bracket rates of the estate tax. The following table compares the gift tax rates under the House bill with those under the Finance Committee bill and shows the cumulative tax on the higher amount shown in the brackets. As under the estate tax, it should be noted here also that the 10 percent defense tax is added to the tax as computed under the rates of the House bill, while under the Finance Committee bill the defense tax is integrated into the rates shown.

Net gift	House bill		Finance Committee bill	
	Bracket rate	Cumulative tax on higher amount	Bracket rate	Cumulative tax on higher amount
	Percent		*Percent*	
$0 to $5,000	2.25	$112.5	2.25	$112.5
$5,000 to $10,000	5.25	375	5.25	375
$10,000 to $20,000	7.50	1,125	8.25	1,200
$20,000 to $30,000	9.75	2,100	10.50	2,250
$30,000 to $40,000	12.00	3,300	13.50	3,600
$40,000 to $50,000	15.00	4,800	16.50	5,250
$50,000 to $60,000	17.25	6,525	18.75	7,125
$60,000 to $100,000	18.75	14,025	21.00	15,525
$100,000 to $250,000	20.25	44,400	22.50	49,275
$250,000 to $500,000	21.75	98,775	24.00	109,275
$500,000 to $750,000	24.00	158,775	26.25	174,900
$750,000 to $1,000,000	25.50	222,525	27.75	244,275
$1,000,000 to $1,250,000	27.00	290,025	29.25	317,400
$1,250,000 to $1,500,000	28.50	361,275	31.50	396,150
$1,500,000 to $2,000,000	30.75	515,025	33.75	564,900
$2,000,000 to $2,500,000	33.75	683,775	36.75	748,650
$2,500,000 to $3,000,000	36.00	863,775	39.75	947,400
$3,000,000 to $3,500,000	38.25	1,055,025	42.00	1,157,400
$3,500,000 to $4,000,000	40.50	1,257,525	44.25	1,378,650
$4,000,000 to $5,000,000	43.50	1,692,525	47.25	1,851,150
$5,000,000 to $6,000,000	45.75	2,150,025	50.25	2,353,650
$6,000,000 to $7,000,000	48.00	2,630,025	52.50	2,878,650
$7,000,000 to $8,000,000	49.50	3,125,025	54.75	3,426,150
$8,000,000 to $10,000,000	51.75	4,160,025	57.00	4,566,150
Over $10,000,000	52.50		57.75	

V. Excise Taxes

1. DISTILLED SPIRITS

Under existing law the tax on distilled spirits (other than brandy) is $3 per proof gallon and on brandy $2.75. The House bill increased these taxes by $1, making the distilled spirits tax $4 and that on brandy $3.75. Your committee bill eliminates this differential between brandy and other distilled spirits and applies the $4 rate to brandy as well as other distilled spirits.

2. WINES

The House bill increased the tax on wines containing not more than 14 percent of alcohol from 6 cents per gallon to 8 cents; on wines containing more than 14 percent but not more than 21 percent of alcohol, from 18 cents to 24 cents; and on wines containing more than 21 percent but not more than 24 percent of alcohol, from 30 cents to 50 cents. Wines containing more than 24 percent of alcohol are taxed as distilled spirits.

It was pointed out by the Treasury Department that even these increases were not sufficient to bring the tax on wines to a comparable basis with the taxes on other alcoholic beverages. Consequently, your committee recommends that the 8-cent rate be increased to 10 cents, the 24-cent rate increased to 35 cents, and the 50-cent rate increased to 65 cents. Likewise, the rate of 4 cents for each one-half pint of champagne and sparkling wine, provided in the House bill, is increased to 7 cents, and the rate on artificially carbonated wine and on liqueurs and cordials is increased from 2¼ cents to 3½ cents per one-half pint.

3. ADMISSIONS TAX

Under existing law amounts paid for admissions of less than 21 cents are exempt from the tax on admissions. The House bill reduced the exemption to amounts of less than 10 cents. Your committee bill eliminates this exemption entirely. In addition, the tax rate provided in the House bill of 1 cent for each 10 cents or fraction thereof of the amounts paid for admission has been replaced by the following schedule of rates:

If the amount charged is—	The tax shall be—
Not over 10 cents	1 cent.
Over 10 cents and not over 15 cents	2 cents.
Over 15 cents and not over 20 cents	3 cents.
Over 20 cents and not over 25 cents	4 cents.
Over 25 cents and not over 35 cents	5 cents.
Over 35 cents and not over 40 cents	6 cents.
Over 40 cents and not over 45 cents	7 cents.
Over 45 cents and not over 50 cents	8 cents.
Over 50 cents	15 percent of the amount charged; fractions of ½ cent or more shall be increased to 1 cent; smaller fractions shall be disregarded.

Under existing law in the case of persons admitted free or at reduced rates, a tax based on the established charge applies, except when the person admitted is a bona fide employee, municipal officer on official business, or a child of less than 12 years of age. The House bill extends this category to include members of the armed forces of the United States and of the Civilian Conservation Corps when in uniform.

Because of the practice now generally followed by many motion-picture theaters of admitting high-school-age boys and girls at reduced rates, the above limitation of 12 years of age has been increased to 18 years by your committee bill. Thus, with respect to persons under 18 years of age, as well as the other persons above described, the tax is based upon the amount actually paid and not upon the established price.

The House bill strikes from existing law all classes of exemptions from the admissions tax except that based only upon the amount paid. Your committee bill restores the exemption of admissions to agricultural fairs and to certain concerts conducted by civic or community membership associations.

4. CABARET, ROOF GARDEN, ETC., TAX

While your committee has made no change in the House bill with respect to this tax, it feels that it may be desirable to clear up a misunderstanding which has arisen regarding the right of the operator of a cabaret, roof garden, or similar establishment to pass on to the patrons the amount of the tax paid. As is the case with respect to all other excise taxes imposed by the Federal Government, the law imposes no restriction upon the extent to which such taxes may be passed on in the price of the goods sold or in the payment for services rendered.

5. TAX ON TELEPHONE, TELEGRAPH, AND CABLE MESSAGES AND SERVICES

Under existing law, telephone, telegraph, and radio or cable messages are taxed in separate categories and at separate rates. The House bill consolidates these items and applies to the charge for such messages a tax of 5 cents for each 50 cents or fraction thereof where the charge is more than 24 cents.

Your committee bill leaves the tax on telephone and radio-telephone conversations as above described, but on telegraph, cable, or radio messages imposes, in lieu of the above rates, a tax of 10 percent of the amount charged.

The House bill continued the present rate of 5 percent upon leased wire or talking circuit special service but added to this category certain wire and equipment services such as teletypewriter service, burglar-alarm service, news-ticker service, stock-quotation and information services. Your committee bill places leased wire, teletypewriters, or talking circuit special service in one category and increases the tax on the amounts paid therefor from 5 to 10 percent. It leaves in effect the 5-percent rate with respect to other wire and equipment services such as stock-quotation and information services, but specifically excludes news-ticker services where a general news service similar to that contained in the public press is furnished. Likewise, amounts paid for burglar- or fire-alarm services are exempted.

The House bill imposed a tax of 5 percent upon amounts paid by subscribers for local telephone service. The committee bill increases this rate to 10 percent.

6. TAX ON SOFT DRINKS

The House bill contains a tax on bottled soft drinks of one-sixth of a cent per bottle on bottles to be sold at retail for less than 10 cents per bottle and at corresponding rates on bottles to sell for more than 10 cents. Similarly, taxes were imposed upon finished or fountain sirups and upon carbonic-acid gas. It was demonstrated to your committee that these taxes would prove a serious hardship upon bottlers, particularly the smaller ones, and that the margin of profit in many cases was less than the tax which would have to be absorbed.

A tax reduced to a point where it could be absorbed safely would produce very little revenue but would impose the same administrative burden as the tax at the higher rate. Consequently, your committee has stricken this tax from the bill.

7. TAX ON ELECTRIC, GAS, AND OIL APPLIANCES

The House bill imposes a tax of 10 percent upon the manufacturer's sale of electric appliances. It was pointed out that the exclusion of gas and oil water heaters and cooking appliances created an unfair competitive situation. Consequently, these gas and oil appliances are included in the taxable category and are taxed at the 10-percent rate.

8. WASHING MACHINES

The House bill lays a 10-percent tax upon the manufacturer's sale of washing machines of the kind used in commercial laundries. Your committee bill applies this tax with respect to all washing machines.

9. ELECTRIC LIGHT BULBS

Your committee has placed a tax of 10 percent upon the manufacturer's sale of electric light bulbs.

10. RETAILERS' EXCISE TAXES

In connection with the consideration of these taxes, it was brought to the attention of your committee that serious competitive situations might arise where some sellers of toilet preparations, furs, or jewelry might advertise or otherwise represent that the price for which these articles are to be sold does not include the tax. Consequently, a provision has been inserted imposing a penalty of not more than $1,000 upon any person who in connection with the sale or lease of furs, jewelry, or cosmetics makes any statement intended or calculated to lead any person to believe that the price of such article does not include the tax.

11. TAX ON THE TRANSPORTATION OF PERSONS

No change is made in this tax as contained in the House bill except to exempt amounts paid for transportation of not more than 1¼ cents per mile applicable to round-trip tickets sold to soldiers, sailors, marines, and members of the Coast Guard when in uniform and traveling at their own expense.

12. TAX ON COIN-OPERATED AMUSEMENT AND GAMING DEVICES

The House bill places a special tax of $25 per year upon each coin-operated amusement or gaming device maintained for use on any premises.

Your committee divides these devices into two categories. Upon so-called pinball or other amusement devices operated by the insertion of a coin or token, the tax is reduced to $10 per year. Upon so-called slot machines, however, the tax is placed at $200 per year.

13. INSTALLMENT SALES

Where any article subject to a manufacturers' excise tax is sold under an installment sale contract before the effective date of part IV of this bill, and delivery is made before such date, the tax applicable to the installments after such date shall be at the rate in force prior to such date. As a result, the new taxes imposed by this bill or the increases in existing taxes are not applicable to such installments.

A similar rule is made applicable with respect to the new retail taxes imposed by the bill.

14. OUTDOOR ADVERTISING

The committee eliminated from the House bill the section imposing a special tax on persons maintaining or controlling the use of billboards for outdoor advertising. The tax, an annual levy, was graduated on the basis of the advertising space area of the billboard.

In the opinion of the committee this tax would entail administrative expense and difficulties incommensurate with its value as a revenue producer. It is believed also that if such a tax were to be

imposed it would be desirable to provide for an exemption of billboards the use of which is donated to the Federal Government for the purpose of aiding it in recruiting for the military and naval forces and in the sale of its securities. It is regarded also as a tax regulatory in some degree of a matter which might preferably be left in the hands of State and local authorities.

15. RADIO BROADCASTING STATIONS AND NETWORKS

The tax imposed by the House bill on persons operating radio broadcasting stations or engaging in net work broadcasting has been stricken out. The reasons in consideration of which the Ways and Means Committee recommended and the House adopted the tax are recognized as having considerable force, but it is believed that the peculiar characteristics of this possible source of revenue require careful study before either the proper basis or rate of tax can be satisfactorily determined. It is the opinion of the committee also that the tax imposed by the House bill would operate with some unjustified discrimination against this particular form of advertising.

16. COCONUT OIL

The committee added to the House bill a section amending chapter 21 of the Internal Revenue Code by adding at the end thereof a new section, numbered 2483, which provides, under certain limitations, that the processing tax provided for in that chapter collected with respect to coconut oil wholly of the production of Guam or American Samoa or produced from materials wholly of the growth or production of those islands shall be held as separate funds and paid into their respective treasuries. The collections affected are those made after the date of the enactment of the bill.

The provision is similar to an existing provision, section 2476 of the Internal Revenue Code, governing the disposition of collections from the processing tax on coconut oil wholly of Philippine production or produced from materials wholly of Philippine growth or production.

VI. Nonessential Federal Expenditures

This amendment establishes a committee to investigate nonessential Federal expenditures. The committee is to be composed of (*a*) three members of the Senate Committee on Finance and three members of the Senate Committee on Appropriations, to be appointed by the President of the Senate; (*b*) three members of the House Committee on Ways and Means, and three members of the House Committee on Appropriations, to be appointed by the Speaker of the House of Representatives; and (*c*) the Secretary of the Treasury and the Director of the Bureau of the Budget. It shall be the duty of such committee to make a complete study and investigation of all expenditures of the Federal Government with a view to recommending the elimination or reduction of all such expenditures deemed to be nonessential. The committee shall report to the President and to the Congress the result of its study together with its recommendations at the earliest practicable date. It is given the authority and powers

commonly given to similar committees of the Senate and will operate under an appropriation not to exceed $10,000.

Paralleling this action, your committee also adopted a committee resolution calling upon the Director of the Budget, under the Budget and Accounting Act of 1920, to submit to the chairman of your committee a report showing how nondefense and nonessential budget items may be reduced by alternative totals of (1) $1,000,000,000; (2) $1,500,000,000; (3) $2,000,000,000. Such report would be available not only to the appropriate committees of the House and Senate but to the committee established under this amendment. The action of your committee in this respect is in line with repeated recommendations of the Secretary of the Treasury before both the Committee on Ways and Means of the House and your committee.

Detailed Discussion of the Provisions of the Bill

TITLE I—INDIVIDUAL AND CORPORATION INCOME TAXES

SECTION 101. SURTAX ON INDIVIDUALS

Under the House bill, the surtaxes apply upon the entire surtax net income and hence the exemption from surtax of the first $4,000 of surtax net income found in existing law is abolished. The lowest surtax bracket rate is 5 percent as compared with 4 percent under existing law. The surtaxes are increased in all brackets up to $750,000 and from that point the rates of existing law are retained. While the rates attributable to surtax net income in excess of $750,000 are not increased, surtaxes payable by taxpayers in these upper brackets are increased by reason of the higher rates in the lower brackets.

Under the bill as reported by your committee, further increases in the surtax rates are made as the result of the integration of the defense tax and the surtax rates. The lowest surtax bracket rate is therefore 6 percent as compared with 5 percent under the House bill and the rates on income in excess of $750,000 are likewise increased, the highest rate being 77 percent as compared with the 75 percent contained in existing law and in the House bill.

SECTION 102. OPTIONAL TAX ON INDIVIDUALS WITH CERTAIN GROSS INCOME OF $3,000 OR LESS

Section 102 of the bill adds to the Internal Revenue Code a new supplement designated "Supplement T" and comprising sections 400 to 404, inclusive. No comparable provisions are contained in the House bill.

Section 400 of Supplement T imposes a tax upon individuals whose gross income is $3,000 or less and consists wholly of salary, wages, compensation for personal services, dividends, interest, rents, annuities, or royalties. The tax is imposed at the election of the taxpayer and is in lieu of the tax imposed by sections 11 and 12. If the taxpayer's gross income exceeds $3,000 or if he has income from any source, or of any class, other than those specified in section 400, he may not avail himself of the election. For instance, the section is not available to a taxpayer who has income from the conduct of a business, or from a partnership or trust, or who has realized gain from the sale or exchange of property. If a husband and wife file

separate returns under the section, the limitation of $3,000 applies to the gross income of each; if they file a joint return, the limitation applies to the combined gross income of the spouses.

The amount of the tax imposed on specified amounts of gross income is determined by reference to the schedule set forth in section 400, a duplicate of which will be printed on the reverse of the form prescribed for making a return of the tax under such section. Gross incomes are grouped in blocks of $25 with the same tax payable for all incomes falling within the particular block. The tax imposed is the amount appearing in column 3 or 4 opposite the particular block. If the taxpayer is a single person who is not the head of a family, the tax imposed is the amount set forth in column 3. If the taxpayer is the head of a family or a married person, the tax imposed is the amount set forth in column 4. If a taxpayer has one or more dependents, he merely subtracts from his gross income $400 for each such dependent and finds the block in which falls the reduced amount.

The amount of the tax imposed in the various blocks is the average of the tax imposed by sections 11 and 12 on the lower and upper limits of the blocks, reduced by 10 percent as an allowance in lieu of deductions from gross income. The schedule takes into account a personal exemption of $750 for a single person and $1,500 for a married person or the head of a family, the same as allowed by section 25 in respect of the tax imposed by sections 11 and 12.

Section 401 prescribes certain rules to be observed in the application of the schedule set forth in section 400. The section states that only a married person living with husband or wife is to be deemed a "married person" for the purposes of Supplement T, and specifically defines a "dependent." For the purposes of this Supplement, the status of a taxpayer as a "married person," "head of a family," or "dependent" is to be determined as of the last day of the taxable year. Consequently, the provisions of section 25 (b) (3) relating to the apportionment of the personal exemption and credit for dependents by reason of a change of status during the taxable year have no application in ascertaining the amount of the tax under section 400. Thus, if a taxpayer has on the last day of the taxable year a dependent within the meaning of the definition contained in section 401, he is entitled to reduce his gross income by $400 in order to ascertain the amount of tax, and it is immaterial that the dependent may have occupied such status for only a portion of the taxable year.

Section 401 provides that if a husband and wife living together file separate returns under section 400, each shall be treated as a single person. Thus, in effect, each receives the benefit of one-half the personal exemption allowed a husband and wife. If they file separate returns and one spouse elects to be taxed under section 400, such spouse is taxed as a single person and in effect receives the benefit of one-half the personal exemption allowed a married person. The personal exemption and credit for dependents of the spouse who does not elect to be taxed under section 400 is determined under the provisions of section 25 (b) and is not governed by his status on the last day of the taxable year. Under the provisions of section 25 (b), as amended by section 111 of the bill, such spouse will be allowed for that portion of the taxable year during which he occupied the status of a married person living with husband or wife one-half of the personal

exemption allowed a married person for such portion of the taxable year.

For example, H, a widower having two dependents, marries W, a single person, on July 1, 1941. For the calendar year 1941, they filed separate returns and W elects to be taxed under section 400. W is taxed as a single person and, since she receives the benefit of a $750 exemption, she in effect receives the benefit of half the marital exemption of $750 for the second half of the year by reason of her status on the last day of the taxable year. H, who is taxed under sections 11 and 12, is subject to the provisions of section 25 (b) (3) requiring an apportionment of the personal exemption and credit for dependents by reason of a change of status during the taxable year. H qualifies as the head of a family for the first 6 months of the taxable year and as a married person living with husband or wife for the last 6 months. Accordingly, his personal exemption is six-twelfths of $1,500 for the first half of the year plus six-twelfths of $750 for the second half, or $1,125. Inasmuch as his status as the head of a family arises from the fact that he maintained a home for two dependent children, the credit for one of such dependents for the first 6 months of the taxable year is disallowed. He is therefore entitled to a credit for one dependent for the first 6 months and a credit for two dependents for the last 6 months. His credit for dependents is therefore $600.

Section 401 also provides that a married person who is not the head of a family and is not living with husband or wife on the last day of the taxable year shall be subject to the tax imposed upon a single person.

An election to be taxed under section 400 can be made only by affirmative action of the taxpayer. Section 402 provides that the election to be taxed under section 400 shall be made by filing a return for the taxable year on the form prescribed for making a return of the tax under this section. Such an election once made is irrevocable. Consequently, such election may not be changed by an amended return. Moreover, if for any taxable year the taxpayer makes a return without regard to this supplement he may not thereafter elect for such taxable year to have his tax computed under this supplement. If the taxpayer fails to file a return for the taxable year and the Commissioner or the collector makes a return under the authority of section 3612, such return shall be made without regard to the provisions of this supplement and the taxpayer shall be deemed to have lost his right to make an election for the taxable year under this supplement.

Section 403 provides that the provisions of section 31 (relating to foreign tax credit) and section 32 (relating to taxes withheld at source) shall not apply with respect to the tax imposed by Supplement T. This provision is necessary in the interest of simplicity. If substantial amounts of either such credit are involved, the taxpayer should make his return under the general provisions of the statute.

Section 404 provides that Supplement T shall not apply to a nonresident alien individual, or an estate or trust. This provision is also necessitated in the interest of simplicity. Such taxpayers are subject to special provisions of the statute that are not readily adaptable to the method of taxation employed in Supplement T.

Section 102 (b) of the bill amends sections 11 and 12 of the code to include cross-references to section 400.

Section 102 (c) of the bill amends section 4 of the code to insert references to Supplements S and T.

SECTION 103. CORPORATION DEFENSE-TAX RATES INCORPORATED IN RATE SCHEDULE

Section 103 of the House bill makes permanent the defense tax imposed by section 15 of the Internal Revenue Code as added by section 201 of the Revenue Act of 1940.

Section 103 of the bill as reported by your committee integrates the defense-tax rates with the rates provided in sections 13 (b) (1) and (2) of the code. Under the bill the permanent normal tax rate applicable to corporations not entitled to the special treatment provided for small corporations is 24 percent, and is thus the same as under existing law including the defense tax. The rates of tax applicable to corporations having normal tax net income of $25,000 or less are as follows:

	Percent
First $5,000	15
Next $15,000	17
Next $5,000	19

The alternative tax in the case of corporations the normal tax net income of which is slightly in excess of $25,000 is $4,250 plus 37 percent of the normal tax net income in excess of $25,000. Under this provision the full tax rate of 24 percent does not become effective until the normal tax net income of the corporation reaches $38,461.54. Integration of the defense-tax rates and the normal tax rates causes the double notch provision found in existing law to disappear.

There is a corresponding integration of the defense tax with the normal taxes on resident foreign corporations and on mutual investment companies, and with the surtax on corporations improperly accumulating surplus.

SECTION 104. SURTAX ON CORPORATIONS AND TERMINATION OF DEFENSE TAX

Section 102 of the House bill, adding section 16 to the Internal Revenue Code, imposes upon all corporations (including insurance companies), except nonresident foreign corporations and mutual investment companies (the latter being later dealt with in the section), a surtax of 5 percent upon the first $25,000 of corporation surtax net income and 6 percent upon the excess of such income over $25,000. Complementary amendments are made to sections 104 (b), 231 (b), 251 (c) (1), and 261 (a). Corporation surtax net income is defined as net income minus the credit for dividends received provided in section 26 (b) and thus includes interest on partially tax-exempt securities in the tax base. Such section also imposes upon mutual investment companies a surtax upon supplement Q surtax net income of such companies at rates corresponding to those imposed upon corporations generally.

Section 104 of the bill as reported by your committee corresponds to section 102 of the House bill and, in addition, terminates the defense tax, the defense-tax rates being integrated with the other income taxes in other sections of the bill.

In lieu of the surtax rates contained in the House bill, the bill as reported by your committee provides a surtax of 6 percent on the first $25,000 of surtax net income and 7 percent on the remainder. Since the credit for interest on partially tax-exempt Government securities is not allowable in computing surtax net income, the bill as reported by your committee also provides that, for the purposes of the surtax, the dividends-received credit shall be limited to 85 percent of the net income rather than 85 percent of the adjusted net income.

SECTION 105. TAX ON NONRESIDENT ALIEN INDIVIDUALS

This section corresponds to section 104 of the House bill, which increases the rate of tax on nonresident alien individuals to 25 percent. Such rate has been increased to 27½ percent, thereby integrating the 10-percent defense tax with such tax. This section also amends section 211 (c) of the Internal Revenue Code by changing to $23,000 the figure at which a nonresident alien individual becomes subject to the full normal and surtax rates. Such figure represents the approximate point at which, under the provisions of the bill, an effective rate of 27½ percent is reached.

SECTION 106. TAX ON FOREIGN CORPORATIONS

Section 231 (a) of the Internal Revenue Code, amended by section 105 of the House bill so as to increase the rate of tax on nonresident foreign corporations from 15 to 25 percent, is further amended so as to integrate the defense tax by increasing such rate to 27½ percent.

SECTION 107. WITHHOLDING OF TAX AT SOURCE

This section is the same as section 106 of the House bill, which provides for withholding of the tax at the source (by means of which the tax in the case of nonresident aliens is very largely collected) at the rate of 27½ percent instead of 16½ percent under existing law. The rate of 27½ percent represents the rate of tax imposed by section 211 (a) (1) (A) after its amendment by section 105 of the bill. The increased rates of withholding will not go into effect until the tenth day after the enactment of the act in order to afford a reasonable period within which withholding agents will be informed of the higher rates applicable to payments made to nonresident aliens or nonresident foreign corporations.

SECTION 108 (TREATY OBLIGATIONS) AND SECTION 109 (REDUCTION IN PURSUANCE OF TREATIES OF RATES OF TAX AND WITHHOLDING ON NONRESIDENT ALIEN INDIVIDUALS RESIDENT IN, AND CORPORATIONS ORGANIZED UNDER LAWS OF, WESTERN HEMISPHERE COUNTRIES)

These sections are the same as sections 108 and 109 of the House bill. Section 108 provides that no amendment made by this title shall apply in any case where its application would be contrary to any treaty obligation of the United States. Section 109 authorizes reduction by treaty in the rate of taxation and of withholding with respect to dividends derived from sources within the United States

by nonresident foreign corporations organized under the laws of any country in North, Central, or South America, or in the West Indies, or of Newfoundland.

SECTION 110. DEFENSE TAX RATES ON PERSONAL HOLDING COMPANIES AND TRANSFERS TO AVOID INCOME TAX INCORPORATED IN RATE SCHEDULES

This section corresponds to section 109 of the House bill, which amends section 500 (b) and section 1250 (b) of the Internal Revenue Code in order to make permanent the defense taxes imposed by such sections on personal holding companies and on transfers to avoid income tax. The bill as reported by your committee repeals these sections, and the taxes imposed by them are integrated with the tax on personal holding companies and the tax on transfers to avoid income tax.

SECTION 111. PERSONAL EXEMPTION

This section, for which there is no corresponding provision in the House bill, amends section 25 (b) (1) by lowering the personal exemption of married persons from $2,000 to $1,500 and the personal exemption of single persons from $800 to $750. The section also amends section 214 of the Internal Revenue Code (relating to personal exemption of nonresident alien individuals) and section 251 (f) of the Internal Revenue Code (relating to personal exemption of citizens entitled to the benefits of section 251) by striking out $800 and inserting in lieu thereof $750 in conformity with the changes made in section 25 (b).

This section further amends section 25 (b) (1) relative to the personal exemption of a married person whose spouse files a separate return under Supplement T, added by section 102 of the bill.

SECTION 112. RETURNS OF INCOME TAX

In accordance with the change in the personal exemption made by section 111 of the bill, this section amends section 51 (a) of the Internal Revenue Code to require a return in the case of any individual whose gross income is equal to or in excess of the personal exemption as reduced by section 111. Thus, a return is required from any individual who is single or married but not living with husband or wife if his gross income is $750 or over, and from a married individual living with husband or wife if having a gross income of $1,500 or over if the other spouse has no gross income, or having a gross income together with the other spouse of $1,500 or over.

A similar change has been made with respect to fiduciary returns and with respect to the amount of payments to individuals which requires an information return from the payor of the income.

SECTION 113. CREDIT FOR DEPENDENTS

This section is the same as section 110 of the House bill which amends section 25 (b) (2) of the Internal Revenue Code relative to the credit for dependents.

In the case of the head of a family or a married person living with husband or wife, the existing law provides as a credit against net

income a personal exemption plus $400 for each dependent other than husband or wife. Under these provisions, a married person living with husband or wife and having no dependents receives as a maximum credit the personal exemption. On the other hand, an unmarried person maintaining a home for a person who also qualifies as a dependent may receive in addition to the same personal exemption a credit for $400 for such dependent. The proposed legislation disallows the credit for one dependent in cases where the taxpayer's status as head of a family is occasioned solely by the existence of one or more of such dependents. The amendment will not affect any case except one in which the taxpayer occupies the status as head of a family solely by reason of the existence of a person for whom he is also entitled to the credit for a dependent. For instance, it will not operate to reduce the credit in the case where a widower is maintaining a home for two children, only one of whom qualifies as a dependent. In such case, the status as head of a family is not occasioned solely by existence of the child in respect of whom the credit of $400 is allowed and consequently the taxpayer may be entitled to the personal exemption allowed the head of a family plus the $400 credit, the same as under existing law.

SECTION 114. NON-INTEREST-BEARING OBLIGATIONS ISSUED AT DISCOUNT

This is the same as section 111 of the House bill and provides that any taxpayer who owns any non-interest-bearing obligations issued at a discount and redeemable for fixed amounts increasing at stated intervals and who, under the method of accounting used by him in computing his net income, is not permitted to report the increment in value of such obligations as it accrues, may, at his election, treat such increment in value as constituting income to him in the year in which it accrues rather than in the year in which the obligations are disposed of, redeemed, or paid at maturity. Under existing law a taxpayer on the accrual basis who owns, for example, non-interest-bearing United States defense bonds is required to report the increment as it accrues, whereas a taxpayer on the cash basis who owns such defense bonds is required to treat the entire increment in value as being income received in the year of redemption or maturity. Therefore, with respect to such non-interest-bearing United States defense bonds, the effect of this section is to extend, at the election of the taxpayer, the accrual method to a taxpayer on the cash basis, but only for the limited purpose of reporting the increment in value of such bonds as it accrues.

The election provided for in this section must be made in the taxpayer's return, and may be made for any taxable year beginning after December 31, 1940. When so made with respect to any obligation, the election shall apply also to all obligations of the type described in this section owned by the taxpayer or thereafter acquired by him. The election applies to the taxable year for which such return is filed and is binding for all subsequent taxable years unless the Commissioner permits the taxpayer, subject to such conditions as the Commissioner deems necessary, to change to a different method of reporting income from such bonds. Although the election, once made, is binding upon the taxpayer, it would not apply to a transferee of such

taxpayer. For example, A, on the cash basis, buys non-interest-bearing United States defense bonds in 1942 and elects in his return for 1942 to treat the increment in value as being income to him as it accrues. In 1943 A dies and bequeaths such bonds to B, who is also on the cash basis. B is not bound by A's election, but he may, if he so desires make an election under this section with respect to the increment in value accruing after the acquisition of such bonds by him. If B had previously made an election under this section, such election would apply to the bonds acquired from A.

In any case in which an election is made under this section, the amount considered to accrue in any taxable year to which the election applies is measured by the actual increases in the redemption price occurring in that year. Such amount shall not be considered to accrue ratably between the dates on which the redemption price changes. Thus, if two dates on which the redemption price increases fall within the taxable year and if the redemption price increases in the amount of 50 cents on each such date, the amount deemed to accrue in that year would be $1. The preceding sentence, however, is subject to an exception in the case of the first taxable year to which the election applies. If at the beginning of the first taxable year to which the election applies the taxpayer owns non-interest-bearing bonds of the prescribed character acquired prior thereto, he is required to report in such year, in addition to the increases in the redemption price actually falling within that year, the total of the increases in such price occurring between the date of acquisition and the beginning of such year. Accordingly, if a taxpayer on the calendar year basis makes an election under this section for 1944 and if the bonds have been issued to the taxpayer on June 1, 1941, he would be required to include in his gross income for the taxable year 1944 the total of the increases in the redemption price of such bonds occurring between the acquisition on June 1, 1941, and December 31, 1944.

SECTION 115. SHORT-TERM OBLIGATIONS ISSUED ON DISCOUNT BASIS

This section, which was not contained in the House bill, provides that the issuing discount on certain short-term Federal, State, and local government obligations issued on a discount basis on or after March 1, 1941, shall not be deemed to accrue until such obligations are paid at maturity, sold, or otherwise disposed of, and that such obligations shall not be treated as capital assets. An obligation may be issued on a discount basis even though the price paid exceeds the face amount. Thus, although the Second Liberty Bond Act provides that Treasury bills of the United States shall be issued on a discount basis, the issuing price paid for a particular bill may, by reason of competitive bidding, actually exceed the face amount of the bill. This section eliminates the necessity for making an allocation between interest and capital gain or loss and will have particular application in the case of Treasury bills of the United States issued after March 1, 1941, which are made taxable by section 4 of the Public Debt Act of 1941.

The requirements of existing law with respect to Treasury bills issued on or after March 1, 1941, impose on taxpayers the duty of making burdensome computations. The portion of the gain attribu-

table to the original discount on such bills is considered as interest and the remainder is treated as a capital gain. Thus, where such a bill is sold by the original holder for an amount in excess of the purchase price plus the issuing discount accrued to the date of sale, allocation to interest and capital gain is required. In the case of a loss resulting from the sale of such a Treasury bill, the loss is treated as a capital loss and must be segregated as such. Being a short-term capital loss, it is allowable only to the extent of short-term capital gains. Moreover, the existing rule that the original discount on Treasury bills accrues ratably over the entire life of the bills requires each successive taxpayer holding a particular bill to ascertain the issuing discount in order that he may determine the amount of such discount which is treated as accruing during the period for which he held the bill.

Under this section a person who sells a Treasury bill issued on or after March 1, 1941, or has it paid at maturity, would need only to compare the sales price, or the amount paid at maturity, with the purchase price or other basis and account for the net gain or loss. In such case there would be two different elements, that is, interest (original discount) and ordinary gain or loss, but since no special treatment is accorded such gain or loss, allocation would be unnecessary. Only the net gain or the net loss need be taken into account. For example, if a $1,000 90-day bill is issued for $994 and the original purchaser sells it at the end of 60 days for $997, he need report only $3 as ordinary income, although there are $4 of accrued discount and a $1 loss. Under existing law he would be required to report the $4 discount as interest and the $1 loss as a short-term capital loss.

Inasmuch as the gross income of life-insurance companies is limited to interest, dividends, and rents, these companies will still be required to make an allocation in respect of obligations of the prescribed character any part of the discount on which is considered as interest. But, as most of the funds of life-insurance companies is invested in long-term obligations, the problem of allocation in this field is not serious.

This section is applicable to taxable years ending after February 28, 1941.

SECTION 116. INFORMATION RETURNS WITH RESPECT TO FEDERAL OBLIGATIONS

This is the same as section 112 of the House bill.

As a consequence of the elimination of tax exemption with respect to Federal obligations brought about by the Public Debt Act of 1941, section 116 of the bill repeals, prospectively, section 147 (d) of the Internal Revenue Code, which made inapplicable to interest on obligations of the United States those provisions of law relating to securing information at the source. Section 116 also makes a complementary amendment to section 147 (b). Such amendments will enable the Commissioner to prescribe regulations requiring such information with respect to interest on United States obligations as he may deem necessary in the interest of good administration of the income-tax laws. Section 116 is to take effect on the day following the enactment of the bill.

SECTION 117. ALIMONY AND SEPARATE MAINTENANCE PAYMENTS

This section amends sections 22, 23, and 25 of the Internal Revenue Code and adds a new section to Supplement E of chapter 1 in order to provide in certain cases a new income-tax treatment for payments in the nature of or in lieu of alimony and allowance for support as between divorced or legally separated spouses. These amendments are intended to distribute the income-tax burden between such spouses by treating such payments as income to the spouse actually receiving or actually entitled to receive such payments and by relieving the other spouse from the tax burden upon whatever part of the amount of such payments is under the present law includible in his gross income. In addition, the amended sections will produce uniformity in the treatment of amounts paid in the nature of or in lieu of alimony regardless of the variance in the laws of different States concerning the existence and continuance of any obligation to pay alimony. In this respect the amendments are designed to remove the uncertainty as to the tax consequences of payments made to a divorced spouse out of the net income of so-called irrevocable alimony trusts, arising from the recent Supreme Court decisions in *Helvering* v. *Fitch* ((1940) 309 U. S. 149), *Helvering* v. *Fuller* ((1940) 310 U. S. 69), and *Helvering* v. *Leonard* ((1940) 310 U. S. 80), which decisions make the test of whether such income is taxable to the husband the existence of a continuing legal obligation under State law.

Section 22, relating to the definition of gross income, is amended by inserting at the end thereof a new subsection designated (k). This subsection applies only to an individual who is divorced or legally separated under a decree of divorce or of separate maintenance and to such individual's spouse or former spouse from whom such individual was divorced or legally separated by such decree. Periodic payments received (other than as beneficiary or assignee of a beneficiary of a trust) by such individual, subsequent to the decree, in discharge of, or attributable to property transferred in discharge of, a legal obligation imposed upon or incurred by such individual's spouse or former spouse under such decree or under a written instrument incident to such divorce or separation are defined by section 22 (k) as gross income to such individual and are includible as such in her income. Installment payments discharging a part of an obligation the principal sum of which is, in terms of money or property, specified in the decree or instrument, are not considered periodic payments for the purposes of section 22 (k), and are, therefore, not gross income to the recipient under that section.

Section 22 (k) also provides that, in the case of a divorce or legal separation, periodic payments which are attributable to property transferred in discharge of the legal obligation of a spouse or former spouse shall not be includible in the gross income of such spouse or former spouse. As a complement to section 22 (k), section 23, relating to deductions from gross income, is amended by adding a new subsection, designated (u), which allows a deduction by the spouse or former spouse described in section 22 (k) in his taxable year in which are paid the amounts includible under section 22 (k) in the gross income of the individual described in section 22 (k). However, such spouse or former spouse is not allowed a deduction under

section 23 (u) for any periodic payments attributable to property transferred in discharge of his legal obligation which under section 22 (k) or section 171 are excluded from his gross income.

Sections 22 (k) and 23 (u), being based upon the terms "received" and "payment of which is made," place the spouses on the cash receipts and disbursements basis with respect to their treatment of the amounts described in sections 22 (k) and 23 (u) for any taxable year. The provisions of section 22 (k) and section 23 (u) are applicable only with respect to taxable years of the spouses beginning after December 31, 1941.

The operation of sections 22 (k) and 23 (u) may be illustrated by the following examples (in which it is assumed that all payments are made and received within taxable years of the spouses beginning after December 31, 1941):

(1) Under the terms of a decree of separate maintenance entered by a State court, Mr. A is to pay Mrs. A $200 a month as alimony for her life. During 1942, Mr. A, pursuant to the decree, pays Mrs. A $200 a month. In computing their income taxes for 1942, Mrs. A will include in her gross income the $2,400 thus received, and Mr. A is entitled to a deduction of $2,400 from his gross income.

(2) Mrs. B files suit for divorce from Mr. B. In consideration of Mrs. B not requesting alimony and not making public his financial affairs, Mr. B makes a legally binding promise in writing to Mrs. B to pay to her $200 a month if a final decree of divorce is granted without any provision for alimony. Accordingly, Mrs. B does not request alimony and no provision for alimony is made under the final decree of divorce. During 1942 Mr. B pays Mrs. B $200 a month, pursuant to the promise. The $2,400 thus received by Mrs. B is includible in her gross income under the provisions of section 22 (k), and Mr. B is entitled to a deduction of $2,400 from his gross income.

(3) Under the provisions of a divorce decree, Mr. C is to pay $200,000 to his divorced spouse, Mrs. C, in installments of $10,000 a year. No part of the $200,000 or the installments thereof is income to Mrs. C under section 22 (k) or deductible by Mr. C under section 23 (u).

(4) A divorce decree requires Mr. D to pay to Mrs. D, his former wife, $500 a month. To meet this obligation, Mr. D purchases an annuity for the life of his divorced wife which will pay her $500 a month. Under the provisions of section 22 (k) and notwithstanding the provisions of section 22 (b) (2), the full $500 a month received by Mrs. D is includible in her gross income and no part of such amount is includible in the gross income of Mr. D or deductible by him from his gross income.

Supplement E is amended by adding a new section, section 171, to state the rule applicable to trust income after a decree of divorce or of separate maintenance. Section 171 is designed to include in the gross income of an individual who is divorced or legally separated under a decree of divorce or separate maintenance the amount of the income of any trust such individual is entitled to receive which, except for the provisions of section 171, would be includible in the gross income of such individual, spouse, or former spouse and to exclude such amount from the gross income of such spouse or former spouse,

regardless of section 166, section 167, or any other provision of chapter 1. The taxable year for which such income is to be accounted for is to be determined under the provisions of section 164. Section 171 is applicable only with respect to taxable years beginning after December 31, 1941.

The operation of this section (and its relation to section 22 (k) and section 23 (u)) may be illustrated by the following examples (in which it is assumed that all payments are made and received within taxable years beginning after December 31, 1941):

(1) As part of a separation agreement, Mr. X transfers property to a trust, the net income of which is estimated by the parties to be sufficient to provide for Mrs. X's support. A few years later Mrs. X obtains a divorce from Mr. X. The final decree refers to the trust created previously under the separation agreement and provides that the transfer in trust and the income therefrom receivable by Mrs. X shall be in lieu of alimony. The court, however, retains, as is allowed under the law of the State in which the divorce is obtained, jurisdiction to provide for further payments to Mrs. X by Mr. X should the income of the trust be insufficient for her support. Under section 171 the net income of the trust is income to Mrs. X and is not income to Mr. X.

(2) Under the same facts as in the previous example the decree of the court provides that in all events Mrs. X shall receive $10,000 a year as alimony. In the first taxable year beginning after December 31, 1942, the net income of the trust is only $8,000. The trustees, therefore, pay an additional $2,000 from the corpus of the trust to Mrs. X. In such a case only $8,000 is includible in the income of Mrs. X under the provisions of section 171. No part of the trust income is includible in the gross income of Mr. X nor is he allowed any deduction for any part of the $10,000 paid to Mrs. X. However, if the additional $2,000 is not payable out of the corpus of the trust but is payable by Mr. X to Mrs. X, then the $2,000 paid by Mr. X to Mrs. X is income to her under section 22 (k). Therefore, for 1942 Mrs. X includes $10,000 in her income, Mr. X does not include in his income the $8,000 paid to Mrs. X by the trust but is entitled to deduct the $2,000 paid by him to Mrs. X.

(3) Mr. Y is the beneficiary of a trust established under the will of his father. Under the terms of the trust, the trustees are to pay to Mr. Y $10,000 a year from the net income of the trust, but if the net income of the trust for any year does not equal $10,000, to pay the net income and so much more from the corpus of the trust as will total $10,000. In 1942 Mrs. Y obtains a divorce from Mr. Y. Under the divorce decree Mr. Y is to pay Mrs. Y $5,000 a year for his life. To meet this obligation under the divorce decree, Mr. Y assigns to Mrs. Y for 5 years one-half of the amount he is otherwise entitled to receive from the trust, promising to make another such assignment or to provide another method of payment of the $5,000 a year to her at the expiration of that period. In 1942 the net income of the trust is $8,000. Under the terms of the trust instrument and of the assignment by Mr. Y to Mrs. Y the trustees pay $5,000 to Mr. Y and $5,000 to Mrs. Y. Since only eight-tenths of the amount thus distributed represents the net income of the trust, only $4,000 of the amount received by Mrs. Y is income to her. Mr. Y will include in

his income only $4,000 and will not include any amount on account of the $5,000 paid to Mrs. Y.

Section 22 (k) and section 171 do not apply to that part of such periodic payments under section 22 (k) and to that part of such trust income under section 171 which by the terms of the decree, or of the written instrument under section 22 (k), or of the trust instrument under section 171, is specifically designated as a sum payable for the support of minor children of the spouses. If, however, the periodic payments and the trust income are received by the wife for the support and maintenance of herself and of minor children of the spouses without such specific designation of the portion for the support of such children, then the whole of such amounts are includible in the income of the wife as provided in section 22 (k) and in section 171. As a necessary complement to these provisions, section 25 (b) (2), relating to credit for dependents, is amended so as to provide that payments to an individual's spouse or former spouse which are includible under section 22 (k) or section 171 in the gross income of such spouse or former spouse shall not be considered payments by such individual for the support of the minor children of such persons. Thus where the portion of such payments for the support of the minor children is not specifically designated, the wife, if actually contributing to the support of the children, is entitled to the credit for dependents, unless it is established that independently of such amounts paid to the wife the husband (or some other person upon whom the children are financially dependent) is actually contributing a greater amount for the support of such children than is the wife.

These rules may be illustrated by the following examples:

(1) Under a decree of divorce which awards to Mrs. Z the custody of the two minor children of herself and Mr. Z, Mr. Z is obligated to pay $500 per month for the maintenance and support of Mrs. Z and their two children. In the calendar year 1942 Mr. Z makes such payments. The $6,000 received by Mrs. Z is to be included in her gross income, and Mr. Z is entitled to a deduction of $6,000. If such payments constitute the children's chief support, Mrs. Z is entitled to the exemption applicable to the head of a family and to a credit for one dependent.

(2) If, in the previous example, the decree had provided that Mr. Z should pay Mrs. Z $300 per month for her maintenance and support and an additional $200 per month for the maintenance and support of their children, only $3,600 would be includible in the gross income of Mrs. Z and deductible from the gross income of Mr. Z; $2,400 would be considered as payments by Mr. Z and not by Mrs. Z for the purpose of determining which of them is entitled to exemption for the head of a family and the credit for dependents.

SECTION 118. EXTENSION OF TIME OF ORDERS OF SECURITIES AND EXCHANGE COMMISSION

Under Supplement R of the Internal Revenue Code certain transactions arising out of the simplification or geographical integration of public-utility holding-company systems may be treated as tax-free exchanges and various adjustments of the basis of property are made. Under Supplement R, as amended by the Revenue Act of 1939,

such transactions must be in conformity with orders of the Securities and Exchange Commission issued before January 1, 1941 (instead of January 1, 1940, the date originally provided), or orders supplementary to such orders. The amendment made by section 118 extends from January 1, 1941, to January 1, 1943, the time during which such an order may be made.

SECTION 119. COMMUNITY INCOME

This section amends the Internal Revenue Code by inserting a new section 29, applicable to taxable years beginning after December 31, 1940, and relating to the taxation of community income.

Subsection (a) provides that, in the case of earned income, the income shall be taxed to the spouse who earned the income. This rule shall apply regardless of the fact that such earnings may be treated as community property under the State law.

Subsection (b) is applicable to income derived from community property. It is provided that such income shall be taxed to the spouse who has the management and control thereof under the law of the jurisdiction in which the marital community exists.

This provision shall not be applicable to income derived from property that is considered the separate property of one of the spouses under the law of the jurisdiction in which the marital community exists, even though such income is considered community property; nor is it applicable to income derived from property which is acquired with funds which constituted income from separate property. The exception is intended to apply to all income derived from property the source of which can be traced to income from separate property, regardless of how many times such income may have been invested or reinvested, i. e., income from separate property A will not be affected by this section even though such income is community property, and if such income is invested in property B the income from such property will also not be subject to this section, nor will any income from property in which such income is in turn invested, etc. In the case of such income, it will continue to be taxed as it was prior to this amendment.

Subsection (c) provides that if spouses elect to file separate returns, only the spouse who is required to treat the income covered by the section as his individual income will be entitled to the deductions and credits allowed under the internal-revenue laws which are properly allocable to such income.

SECTION 120. TAXABLE YEARS TO WHICH AMENDMENTS APPLICABLE

This section corresponds to section 114 of the House bill and makes the amendments relative to individual and corporation income taxes contained in this title, except the amendments made by section 107 (withholding tax at source), section 115 (short-term obligations issued on discount basis), section 116 (information returns with respect to Federal obligations), and section 117 (alimony and separate maintenance payments), applicable only with respect to taxable years beginning after December 31, 1940.

TITLE II—EXCESS-PROFITS TAX

SECTION 201. EXCESS-PROFITS TAX RATES AND CREDITS

Section 201 (a) of the House bill amends section 710 (a) of existing law, relating to the imposition of the excess-profits tax, to provide for increased rates of tax, which are set forth in the table in section 710 (a) (1). These rates begin at 35 percent upon adjusted excess-profits net income of not more than $20,000 and increase upon a graduated scale to 60 percent upon the amount of adjusted excess-profits net income in excess of $500,000. The rates of tax set forth in section 710 (a) (1) represent an increase of 10 percentage points in each rate bracket as compared with the rates under the present law, which run from 25 to 50 percent. Section 201 (a) of the House bill also provides a special tax in certain cases where the invested capital credit is used, amounting to 10 percent of the excess of the adjusted excess-profits net income computed under the income credit over the adjusted excess-profits net income computed under the invested capital credit.

Section 201 (b) of the House bill amends section 714 of existing law by reducing the credit with respect to corporations using the invested capital method in cases where the invested capital exceeds $5,000,000. In such cases, the invested capital credit is reduced from 8 to 7 percent upon so much of the invested capital as exceeds $5,000,000.

In the bill as reported by your committee the increase in excess-profits tax rates and the reduction in the percentage applicable to invested capital in excess of $5,000,000 have been retained, but for reasons set forth elsewhere in this report the special 10-percent tax in certain cases where the invested capital credit is used has been eliminated.

SECTION 202. DEDUCTION OF EXCESS-PROFITS TAX

Except for the elimination of subsection (i), which is no longer necessary in view of section 301 (c) of the bill, providing for an annual declaration of value for capital-stock-tax purposes, this section is the same as section 204 of the House bill. It provides that the income tax imposed by chapter 1 of the Internal Revenue Code and by corresponding provisions of prior revenue acts shall not constitute an adjustment in determining excess-profits net income for current and base period taxable years. Section 23 (c) is amended to provide for the deduction of the excess-profits tax in determining income subject to chapter 1 tax. Furthermore, the taxpayer, if using the income method, has its excess-profits credit increased by the corresponding nondeduction of income taxes in determining its average base period net income.

It is provided that the deduction shall be allowed only in computing the income tax imposed for the taxable year for which the excess-profits tax is levied. By providing that any excess-profits tax paid after the taxable year shall be deemed to have been paid within the taxable year, the same treatment is accorded to taxpayers on the cash basis as is accorded to taxpayers on the accrual basis. It is also provided that the excess-profits tax shall be computed, for the purposes

of this deduction, without reduction by the foreign tax credit, and without regard to the adjustments provided for in section 734.

Since the excess-profits net income for a taxable year is primarily the normal-tax net income with certain adjustments, it is necessary to amend section 711 (a) to require an adjustment to normal-tax net income in the form of a disallowance of the deduction of the excess-profits tax. A further adjustment is added to this section in the form of a provision stating that, for the purpose of computing any deduction or credit which is limited to a certain percentage of the taxpayer's net income—e. g., the deduction for charitable contributions or for percentage depletion—such net income (or, in the case of percentage depletion, such net income from the property) shall be computed without regard to the deduction on account of the excess-profits tax. It is also provided under section 718 (c) (3) with reference to taxpayers on the invested-capital basis, that in determining whether distributions were out of earnings and profits of any excess-profits-tax taxable year, the income tax shall be disregarded in the computation. Finally, in determining the presence and extent of the taxpayer's right to the benefits of section 722, dealing with abnormalities, it is provided that the excess-profits tax shall be disregarded.

Section 602 of the Internal Revenue Code, dealing with the computation of net income for the purposes of the declared value excess-profits tax, is amended to provide that the net income shall be determined without regard to the deduction on account of the excess-profits tax imposed by subchapter E of chapter 2.

It is also provided that, in computing the excess-profits credit carryover, the excess-profits credit and excess-profits net income for taxable years beginning in 1940 shall be computed as if the amendments made by this bill were applicable.

SECTION 203. NEW CAPITAL

This section is the same as section 205 in the House bill except for certain changes of a technical nature made in subparagraph (A) intended to carry out more completely the provisions of the House bill.

This section amends section 718 (a) of the Internal Revenue Code, defining equity invested capital, by adding a new paragraph designated as (6). The effect of the amendment is to increase by 25 percent the amount includible in equity invested capital on account of new capital. The term "new capital" is defined to mean the aggregate of the amount of money and property paid in for stock or as paid-in surplus, or as a contribution to capital, and the amount of taxable stock dividends made, during a taxable year beginning after December 31, 1940, subject to certain limitations. These limitations are intended, in general, to prevent a taxpayer from treating as new capital amounts resulting from mere adjustments in the existing capital, including borrowed capital, of the taxpayer, or of a controlled group of corporations.

The limitations provided by subparagraphs (A), (B), and (C) bar from the concept of new capital the amount of any equity invested capital acquired in an exchange occurring during a taxable year be-

ginning after December 31, 1940, to which section 112 (b) (3), (4), or (5), or so much of section 112 (c), (d), or (e) as refers to section 112 (b) (3), (4), or (5) is applicable, or would be applicable if the term "control" had been defined in section 112 (h) to mean the ownership of stock possessing more than 50 percent of the total combined voting power of all classes of stock entitled to vote or more than 50 percent of the total value of all classes of stock. In order to take care of exchanges under Supplement R of the Internal Revenue Code, which relates to exchanges and distributions in obedience to orders of the Securities and Exchange Commission, and to which section 112 (b), (3), (4), or (5) is made inapplicable by section 371 (g), that portion of subparagraph (A) of the House bill reading:

> There shall not be included money or property paid in by a corporation in an exchange to which section 112 (b) (3), (4), or (5), or so much of section 112 (c), (d), or (e) as refers to section 112 (b) (3), (4), or (5) is applicable—

has been changed to read:

> There shall not be included money or property paid in by a corporation in an exchange to which section 112 (b) (3), (4), or (5), or so much of section 112 (c), (d), or (e) as refers to section 112 (b) (3), (4), or (5) is applicable (or would be applicable except for section 371 (g)).

These limitations also bar from the concept of new capital any equity invested capital acquired in a transaction between members of a controlled group of corporations as that term is defined in subparagraph (B).

The limitations provided by subparagraph (D) have the effect of reducing the amount of new capital as of any day by the excess of the amount of inadmissible assets held on that day over the amount of such assets held on the first day of the taxpayer's first taxable year beginning after December 31, 1940. This treatment is comparable to the treatment of excluded assets in the computation of daily capital additions under section 713 (g) of the existing law.

The limitations under subparagraph (E) prevent new capital as of any day from exceeding the amount by which the total equity invested capital and borrowed capital as of such day, computed without including the 25-percent increase, exceeds the sum of the equity invested capital and borrowed capital as of the first day of the taxpayer's first taxable year beginning after December 31, 1940. Any increase in new capital is thus prevented where the amount of borrowed capital is reduced by the same amount as that by which the equity invested capital is increased, and no increase in new capital will result from a distribution by a stock dividend of earnings and profits accumulated prior to the first day of a taxable year beginning after December 31, 1940. Subparagraph (E), however, is so worded that there is no reduction to the extent that the sum of the equity invested capital and borrowed capital as of any day is less than the sum of the equity invested capital and borrowed capital as of the first day of a taxable year beginning after December 31, 1940, due to an operating deficit occurring in any taxable year during the intervening period.

The limitations contained in subparagraphs (A) to (E) may be illustrated by the following examples:

EXAMPLE (1), SUBPARAGRAPH (A)

Corporation A issues stock during a taxable year beginning after December 31, 1940, to corporation B in exchange for the transfer of certain property by corporation B. Immediately after the transfer the stock acquired by corporation B has a value of $10,000, the total value of all classes of stock of corporation A then outstanding amounting to $18,000. Corporation A obtains no new capital, since the property for which the new stock was issued was obtained in an exchange to which section 112 (b) (5) would be applicable if the term "control" had been defined in section 112 (h) so as to include either the ownership of stock possessing more than 50 percent of the total combined voting power of all classes of stock entitled to vote or more than 50 percent of the total value of all classes of stock outstanding.

EXAMPLE (2), SUBPARAGRAPH (B)

Corporation A owns stock in corporation B, and corporation B owns stock in corporation C. Corporation A transfers property to corporation C in exchange for stock of corporation C. Immediately after the transfer the stock owned by corporation A in corporation B possesses more than 50 percent of the total combined voting power of all classes of stock entitled to vote. Also immediately after such transfer the stock owned by corporation B in corporation C has a value equal to more than 50 percent of the total value of all classes of stock of corporation C.

Corporation C obtains no new capital through the acquisition of the property from corporation A in exchange for its stock, since immediately after the transfer corporation A, the transferor, and corporation C, the transferee, are members of the same controlled group.

EXAMPLE (3), SUBPARAGRAPH (C)

Corporation A makes a distribution in taxable stock dividends to corporation B and C during a taxable year, beginning after December 31, 1940. Immediately after the distribution corporations B and C own stock in corporation A which has a voting power of more than 50 percent of the combined voting power of all classes of stock entitled to vote. Also immediately after the transfer corporation B owns stock in corporation C, which has a value of more than 50 percent of the total value of all classes of stock of corporation A. The distribution made by corporation A in the taxable stock dividend does not constitute new capital to corporation A.

EXAMPLE (4), SUBPARAGRAPH (D)

Corporation X makes its excess-profits tax return on the calendar-year basis. On July 1, 1941, cash in the amount of $100,000 is paid in for stock. There are no other changes made in either the amount of equity invested capital or borrowed capital at any time during the year 1941. The adjusted basis of inadmissible assets as of January 1, 1941, amounts to $5,000. The adjusted basis of such assets as of July 2, 1941, is increased to $15,000. The new capital of $100,000 is reduced

to $90,000 as of July 2, 1941, by subparagraph (D), as shown by the following computation:

$100,000, new capital, minus $10,000 ($15,000, amount of inadmissibles as of July 2, 1941, minus $5,000, amount of inadmissibles as of July 1, 1941) = $90,000.

EXAMPLE (5), SUBPARAGRAPH (E)

Corporation Y makes its return on the calendar-year basis. Its equity invested capital as of January 1, 1941, amounts to $30,000, consisting of money paid in for stock, $20,000, and accumulated earnings and profits, $10,000. Its borrowed capital as of January 1, 1941, consists of bonds outstanding amounting to $15,000, making the total of its equity invested capital and borrowed capital as of January 1, 1941, $45,000. The corporation has no inadmissible assets at any time during the year 1941. On January 2, 1941, the corporation makes a distribution in taxable stock dividends amounting to $5,000. On July 1, 1941, money is paid in for stock amounting to $15,000, and on July 2, 1941, bonds are retired in the amount of $10,000.

The new capital of $20,000 acquired during the year 1941 represented by a distribution in a taxable stock dividend amounting to $5,000 and by money paid in for stock amounting to $15,000 is reduced to $5,000 on July 3, 1941, due to the retirement of $10,000 of bonds on July 2, 1941, and the fact that the stock dividend is paid out of earnings accumulated before January 1, 1941, under the application of subparagraph (E), shown as follows:

The sum of the equity invested capital and borrowed capital on July 3, 1941 (computed without regard to the 25-percent increase for new capital), amounts to $50,000. This sum exceeds the total equity invested capital and borrowed capital on January 1, 1941, amounting to $45,000, by $5,000. Under subparagraph (E) the new capital shall not be more than such excess. The new capital is thus reduced from $20,000 to $5,000.

If the accumulated earnings and profits of corporation Y as of January 1, 1942, are reduced to zero due to the stock dividend distribution of $5,000 made on January 2, 1941, and an operating deficit of $5,000 during the taxable year 1941, the new capital includible in equity invested capital as of January 1, 1942, would be $10,000 instead of $5,000 under the application of subparagraph (E), as shown by the following computation:

New capital as of January 1, 1942, before application of subparagraph (E), $20,000, shall not be more than the excess of $50,000 (total capital on January 1, 1942, before adding 25 percent under section 718 (a) (6)) over $45,000 (total capital on January 1, 1941) less $5,000 (amount by which the accumulated earnings and profits as of January 1, 1941, exceed the accumulated earnings and profits (computed without regard to distributions as of January 1, 1942)), or the new capital cannot exceed $50,000 minus ($45,000 minus $5,000), or $10,000.

SECTION 204. TAXABLE YEARS TO WHICH AMENDMENTS APPLICABLE

This is the same as section 207 of the House bill and provides that the amendments relative to the excess-profits tax made by this title are applicable only with respect to taxable years beginning after December 31, 1940.

TITLE III—CAPITAL-STOCK TAX AND DECLARED VALUE EXCESS-PROFITS TAX

SECTION 301. CAPITAL-STOCK TAX

The House bill increased the capital-stock tax from the defense rate of $1.10 per $1,000 to $1.25 per $1,000 of the value of the capital stock as declared by the corporation. This provision is retained in the bill as reported by your committee. In addition, your committee has revised this section to provide for an annual declaration of capital-stock value. Certain technical amendments necessitated by such provision have also been made.

Section 1203 (a) (2) of the Internal Revenue Code is also amended to permit a 90-day extension of time, in lieu of the 60-day extension authorized by existing law, for filing of capital-stock returns for this year. However, if a return has already been filed, the filing of an amended return is not made compulsory, it being provided that the value declaration on a return filed in accordance with the statute shall constitute the declared value for purposes of the statute as amended unless another return is filed within the time prescribed by law, which includes the period of any extension granted by the Commissioner.

SECTION 302. DECLARED VALUE EXCESS-PROFITS TAX—DEFENSE-TAX RATES INCORPORATED IN RATE SCHEDULE

The House bill made permanent the defense-tax rates of the excess-profits tax. The amendment accomplishes the same result by integrating the defense-tax rates with the basic tax.

Other technical amendments are made to accord with the amendments made by section 301 relative to the capital-stock tax.

TITLE IV—ESTATE AND GIFT TAXES

SECTION 401. ESTATE-TAX RATES

This section of the House bill increases the rates applicable to the additional estate tax with respect to decedents dying after the date of enactment of the act and make permanent the defense tax on net estates imposed by section 951. In the bill as reported by your committee these increases have been retained, but the rates have been further increased by reason of the integration of the defense tax and the additional estate tax.

SECTION 402. GIFT-TAX RATES

This section of the House bill increased the rates for computing the gift tax for the calendar year 1942 and each calendar year thereafter. The 75-percent ratio previously existing between the gift-tax rates and the aggregate of the estate tax and additional estate-tax rates was preserved. The House bill also made permanent the defense tax imposed for 5 years by section 1001 (d) of the Internal Revenue Code. In the bill as reported by your committee these increases have been retained, but the rates have been further increased by reason of the integration of the defense-tax and the gift-tax rates.

TITLE V.—EXCISE TAXES

PART I. 1932 EXCISE TAXES MADE PERMANENT

SECTION 501. 1932 EXCISE TAXES MADE PERMANENT

This section repeals section 3452 of the Internal Revenue Code, which now provides that the manufacturers' excise taxes imposed by chapter 29 shall terminate as of July 1, 1945. It thus makes permanent law the provisions imposing such taxes.

SECTION 502. PIPE-LINE TAX

This section strikes out the termination date (July 1, 1945) applicable to the tax on the transportation of oil by pipe line.

SECTION 503. TECHNICAL AMENDMENT

This section revises the title language of subtitle C of the Internal Revenue Code to make it more descriptive of the taxes included within subtitle C.

SECTION 504. BOND TAX

This section makes permanent the tax on the transfer of bonds.

SECTION 505. CONVEYANCE TAX

The two sections strike out the termination date (July 1, 1945) applicable to the bond transfer and conveyance taxes.

PART II. DEFENSE-TAX RATES MADE PERMANENT (NO INCREASE IN TAX AND NO CHANGE OF BASE)

SECTION 521. DEFENSE EXCISE-TAX RATES MADE PERMANENT WHICH ARE NOT INCREASED BY THIS ACT

With respect to the taxes listed hereinafter section 521 incorporates, without change, in the applicable provisions of the Internal Revenue Code the defense-tax rates imposed by the First Revenue Act of 1940 and makes such rates permanent. These tax rates were originally pre-

scribed by the First Revenue Act of 1940 to be effective for the period prior to July 1, 1945. The particular taxes are those with respect to—

Corporate securities.
Capital-stock issues.
Capital-stock transfers.
Insurance policies.
Passage tickets.
Cigarettes.
Pistols and revolvers.
Fermented malt liquors.
Wholesalers of liquors.
Retailers of liquors.
Brewers.
Wholesalers of malt liquors.
Retailers of malt liquors.
Rectifiers.
Stills.
Firearms, etc.
Electrical energy.
Gasoline.
Lubricating oils.
Transportation of oil by pipe line.
Transfer of bonds.
Conveyances.

Section 521 of the House bill covered also "box seats" and "sales outside box offices," but under the committee amendment these are covered by section 541 (b) and (c) which increases the tax in each case to 15 percent.

Part III. Increases in Rates of Existing Excise Taxes

SECTION 531. PLAYING CARDS

This section increases the rate of tax on the manufacture of playing cards from 11 cents per pack to 13 cents per pack.

SECTION 532. SAFE-DEPOSIT BOXES

This section increases the rate of tax on the rental of safe-deposit boxes from 11 percent of the amount paid to 20 percent.

SECTIONS 533, 534, LIQUOR

Section 533 amends section 2800 (a) (1) of the Internal Revenue Code, which imposes an excise tax upon distilled spirits and imported perfumes containing distilled spirits at the rate of $4 (and on brandy at the rate of $3.75).

The existing rate of tax upon distilled spirits other than brandy, and upon imported perfumes containing distilled spirits, is $3 per proof gallon, and upon brandy $2.75 per proof gallon. These are the defense-tax rates imposed by section 213 of the Revenue Act of 1940, effective July 1, 1940. The rates proposed by the bill, therefore, represent an increase of $1 per proof gallon over the defense-tax rates. The defense-tax rates are 75 cents per proof gallon over and above the rates in effect prior to July 1, 1940.

Subsection (c) of section 533 makes a complementary amendment to section 2887 of the Internal Revenue Code, which provides for the allowance of drawback of internal-revenue tax upon the exportation of distilled spirits in distillers' original packages.

Subsection (d) will amend section 2800 of the Internal Revenue Code by adding a new subsection "(i)" to provide a floor-stocks tax of $1 per proof gallon on all distilled spirits upon which the tax has been paid and which on the effective date of the new rates are held and intended for sale or for use in the manufacture or production of any article intended for sale. This subsection will have the effect of placing all distilled spirits tax-paid at the old rates and held for the purposes specified on an equal tax basis

with other distilled spirits withdrawn and tax-paid at the new rates. It will preclude loss of revenue through the withdrawal and tax payment of large stocks before the new rates become effective. As in prior floor-stocks tax statutes, provision is made for the filing of returns and for deferring payment of the tax upon the submission of satisfactory surety bonds.

This subsection also provides that for the purposes thereof the term "distilled spirits" shall include products produced in such manner that the person producing them is a rectifier within the meaning of section 3254 (g) of the Internal Revenue Code. The object of this provision is to subject to the floor-stocks tax liqueurs, cordials, and similar compounds in the manufacture of which distilled spirits are a constituent.

The existing rates on still wines are as follows: Not more than 14 percent of absolute alcohol, 6 cents per wine gallon; more than 14 percent and not exceeding 21 percent of absolute alcohol, 18 cents per wine gallon; and more than 21 percent and not exceeding 24 percent of absolute alcohol, 30 cents per wine gallon. Section 534 (a) of the bill imposes rates of 8, 24, and 50 cents respectively. The proposed rates represent an increase of 2 cents, 6 cents, and 20 cents per gallon over existing rates.

The existing tax rates on other wines are as follows: Sparkling wines, 3 cents on each one-half pint or fraction thereof; artificially carbonated wines, 1½ cents on each one-half pint or fraction thereof; liqueurs, cordials, and similar compounds, 1½ cents on each one-half pint or fraction thereof. Section 534 (b) of the bill imposes rates of 4 and 2¼ cents respectively. The proposed rates represent an increase of 1 cent on sparkling wines and three-fourths of 1 cent on artificially carbonated wines, and liqueurs, cordials, and similar compounds, over the tax rates on such products.

Subsection (c) of section 534 will amend subchapter F of chapter 26 of the Internal Revenue Code by inserting at the end thereof a new section imposing a floor-stocks tax on all wines on which the tax has been paid and which are held and intended for sale or for use in the manufacture or production of any article intended for sale on the effective date of the new rates. This subsection, like subsection (d) of section 533 in the case of distilled spirits, will have the effect of placing all wines tax-paid at the old rates and held for the purposes specified on a basis of equality, insofar as taxation is concerned, with other wines withdrawn and tax-paid at the new rates.

Your committee made the following changes: The differential in favor of brandy was eliminated, and brandy made subject to the same $4 rate as other distilled spirits. The rates on still wines of 8 cents, 24 cents, and 50 cents have been changed to 10 cents, 35 cents, and 65 cents, respectively. The rate of 4 cents on sparkling wines has been changed to 7 cents and the rate of 2¼ cents on artificially carbonated wines and on liqueurs, cordials, and similar compounds has been changed to 3½ cents.

SECTION 535. TIRES AND TUBES

This section increases the rate of the manufacturers' excise tax (defense tax rates) on tires from 2½ cents per pound to 5 cents per pound and the rate of tax on inner tubes from 4½ cents per pound to

9 cents. It imposes a floor-stocks tax on tires and inner tubes held for sale by any person other than the manufacturer, producer, or importer on the date the increased manufacturers' excise tax rates take effect. The floor-stocks tax rates are in an amount equal to the increase in the rates of the manufacturers' tax. The floor-stocks tax is restricted in its scope to tires and inner tubes for automobiles, trucks, trailers, motorcycles, etc., and will not be applicable to such miscellaneous items as bicycle tires, baby-buggy tires, etc. The tax is specifically made applicable to tires and tubes held by automobile manufacturers as, or for, equipment on new automobiles. It is not made applicable to tires and tubes actually on automobiles held by new and second-hand car dealers but is applicable to the stocks of unmounted tires and tubes held by such dealers and by any person, including retailers, for sale. The floor-stocks tax does not apply to any tires and tubes held by a person who must pay the increased manufacturers' excise-tax rate on such articles when he sells them.

SECTION 536. EFFECTIVE DATE OF PART III

This section applies to sections 531 to 535, inclusive, and provides, in brief, that the increased tax rates and new taxes imposed by such sections shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of the bill.

PART IV. CHANGES IN BASIS OF COMPUTING TAX (RATES INCREASED IN CERTAIN CASES)

SECTION 541. ADMISSIONS TAX

The House bill subjected to tax, admissions of 10 cents or more at the rate of 1 cent for each 10 cents or fraction thereof. Under existing law the admissions tax applies only to admissions of 21 cents or more.

Under the committee amendment the tax applies to all amounts paid for admission. In addition to the consideration of the increased revenue resulting from elimination of the exemption, which was strongly urged on the committee, many operators of amusement enterprises would prefer that there be no exemption of amounts less than 10 cents, as this exemption would encourage certain forms of avoidance, such as reducing a 10-cent admission charge to 9 cents.

The committee bill imposes a schedule of rates as follows: A 10-cent admission is taxable at 1 cent, a 15-cent admission at 2 cents, a 20-cent admission at 3 cents, etc. Admissions of more than 50 cents are to be subject to a tax of 15 percent of the amount charged. Fractions of ½ cent or more are to be increased to 1 cent and smaller fractions disregarded. The rates of tax upon sales outside the box office and upon the permanent use or lease of boxes and seats are increased from 10 to 15 percent.

Under the bill as it passed the House, the special treatment under the admissions tax with respect to so-called free or reduced rate admissions now applicable to employees, municipal officers, and children under 12 years of age, is extended to include members of the military or naval forces of the United States and of the Civilian Conservation Corps when in uniform. For example: If the estab-

lished price is 50 cents and a soldier in uniform is charged only 20 cents, the tax basis is 20 cents and not 50 cents. If he is admitted free no tax is payable.

In the case of reduced rates of admission of children under 12 years of age, the present law provides that the tax shall be computed on the amount actually charged such children and not on the regular charge for adults. Your committee recommends that the age limit of 12 years be changed to 18 years.

The bill, as it passed the House, provided that section 1701 of the Internal Revenue Code which allows a number of exemptions from the admissions tax shall not be applicable after the effective date of part III of the bill. The amendment continues the exemptions allowed by sections 1701 (b) and (c) which the committee regards as appropriate. Section 1701 (b) relates to admissions to agricultural fairs, and section 1701 (c) relates to admissions to certain concerts conducted by civic or community membership associations.

SECTION 542. CABARET, ROOF GARDEN, ETC., TAX

This section revises the base of the present "cabaret" tax. It imposes a tax of 5 percent on amounts paid for admission, refreshment, service, and merchandise at any roof garden, cabaret, or other similar place furnishing a public performance for profit. Liability for the tax is imposed on the proprietor. The tax applies to all amounts paid. Under present law the tax is imposed on the patron under a rather complicated rate of 2 cents (including the defense tax) for each 10 cents of 20 percent of the amount paid if 20 percent of the amount paid exceeds 50 cents.

This section also makes certain amendments to administrative provisions of the code applicable to the "cabaret" tax and other admission taxes.

The committee made no change in this section. It was urged before the committee that shifting of liability for the tax from the patron to the proprietor would make it unlawful for the proprietor to add the amount of the tax to the patron's bill. This contention is mistaken. The amendment merely shifts the legal incidence of the tax from the patron to the proprietor and makes the proprietor primarily liable for the payment of the tax to the Government. There is nothing in the section which would prevent the taxpayer, the proprietor, from shifting the tax burden to his customer.

By section 550 of the bill the cabaret tax imposed by section 542 is made applicable to the period beginning 10 a. m. on the effective date of part IV of the bill. The time 10 a. m. means the standard time for the time belt.

SECTION 543. CLUB DUES

This section reduces the amount used as a test for determining liability to the tax on club dues from $25 annual dues of an active resident annual member to $10, and redefines the term "dues" specifically to include certain privilege fees and assessments.

This section also makes permanent the defense-tax rates applicable to dues and initiation fees, as imposed by the first Revenue Act of 1940.

The committee made no change in this section. It believes the redefinition of the term "dues" to be very helpful in avoiding litigation. Under existing law a number of privilege fees and assessments are subject to tax as club "dues". Some taxpayers have alleged either that there is an ambiguity in the present law or that it cannot be construed to cover certain types of fees. It is, therefore, desirable, in order to avoid litigation, to define in very direct terms what is intended to be covered by the term "dues."

SECTION 544. AUTOMOBILE, TRUCK, BUS, AND PARTS TAX

This section increases the rates of tax on automobile truck chassis, truck bodies, etc., from 2½ percent to 5 percent and brings trailers and semitrailers for trucks within the scope of the tax. Passenger busses which under present law are subject to the higher rate of tax applicable to passenger automobiles have been included within the "truck" classification, and will be subject to the new 5-percent rate.

The rate of tax on passenger automobile chassis and bodies, motorcycles, etc., is increased from 3½ percent to 7 percent. Trailers and semitrailers for such vehicles are made subject to the tax. Subsection (b) of section 544 increases the rate of tax on automobile parts and accessories from 2½ percent to 5 percent. It excludes automobile radios which have heretofore been subject to tax as automobile "parts or accessories." Automobile radios are by section 545 made subject to the manufacturers' tax on radio sets and parts at the rate of 10 percent.

Subsection (c) of section 544 increases the rates of credit allowable under this section to automobile manufacturers with respect to the tires and inner tubes on such vehicles from 2½ to 5 percent in the case of trucks, busses, etc., and 3½ to 7 percent in the case of other automobiles and motorcycles.

Subsection (d) repeals section 3403 (f) of the Internal Revenue Code which would allow a tax adjustment with respect to floor stocks of passenger automobiles, trucks, etc., held by dealers as of the termination date of the present tax on such vehicles. This is done because the termination date of such tax has been deleted and the tax made of a permanent nature. Section 3403 (f), therefore, becomes unnecessary.

It was urged that this section be amended to specify that repaired, reconditioned, and rebuilt automobile parts and accessories are not subject to the "parts and accessories" tax. Your committee examined the problem very carefully. Repaired and reconditioned parts are not now subject to tax. There are several decisions of the United States circuit courts of appeals holding rebuilt parts and accessories to be subject to the manufacturers' tax. Rebuilt parts compete with new parts, and it appears appropriate that they should be subject to the same tax. Accordingly, no change has been made.

SECTION 545. RADIOS, PHONOGRAPHS, RECORDS, AND MUSICAL INSTRUMENTS

Section 3404 of the Internal Revenue Code now imposes a tax on sales by the manufacturer of certain radio components at the rate of 5½ percent of the sale price. Section 545 amends section 3404 of the code so as to impose a tax at the rate of 10 percent on—

Radio receiving sets.
Automobile radio receiving sets.
Combination radio and phonograph sets.
Phonographs.
Certain principal components of these articles.
Phonograph records.
Musical instruments.

The articles listed have been included within the same section of the code because largely related.

SECTION 546. REFRIGERATORS, AIR CONDITIONERS

Section 3405 of the Internal Revenue Code imposes a tax on sales by the manufacturer of household-type mechanical refrigerators and certain principal components of such articles at the rate of 5½ percent of the sales price. Section 546 amends section 3405 of the code to increase the tax rate to 10 percent and to make the tax applicable to the principal commercial types of refrigerators, including such articles as ice-cream cabinets, food and beverage display cases, water coolers, milk-cooler cabinets, and similar articles. In addition, there are brought within the scope of the tax components of refrigerating apparatus such as compressors, condensers, evaporators, expansion units, absorbers, and controls. However, the tax with respect to such components is not limited to components for the household, commercial, and industrial type of refrigerator units referred to above. Refrigerating components will be subject to tax regardless of their intended use. For example, components for refrigerator ships and refrigerator cars, and for the refrigerating plants of breweries and cold-storage warehouses will be subject to the tax.

Section 546 also imposes a tax at the rate of 10 percent on the sale by the manufacturer of self-contained air-conditioning units and certain principal components of such articles.

SECTION 547. MATCHES

Section 3409 of the Internal Revenue Code now imposes a tax at the rate of 5½ cents per thousand on certain fancy wooden matches. Section 547 amends section 3409 of the code to also impose a tax at 2 cents per thousand on other types of matches. The types of matches subject to the new tax at 2 cents per thousand include the well-known types of wooden and paper matches now in every-day use.

SECTION 548. TELEPHONE, TELEGRAPH, ETC.

Section 548 as it passed the House would impose on telephone conversations, telegraph, cable, and radio dispatches, messages and conversations, for which the charge is more than 24 cents, a tax at the rate of 5 cents for each 50 cents or fraction thereof of the charge. Under existing law, the tax on telephone toll service does not apply

to charges of less than 50 cents. Telegraph dispatches and messages are now subject to tax at the rate of 5 percent of the amount charged, and cable and radio dispatches and messages at the rate of 10 cents per message.

The committee amendment continues the distinction made by the existing law between telephone service and telegraph service and makes the new rates fixed by the House bill applicable only to telephone or radio-telephone messages or conversations. Telegraph, cable, and radio messages, and dispatches are made subject to tax at 10 percent of the amount charged. The 10-percent rate is double the rate provided by existing law. Your committee felt that the tax rates fixed by the House bill would place telegraph, cable, and radio service at a competitive disadvantage.

This section also amends section 3465 (b), which imposes a tax with respect to leased wires and talking-circuit special service, to more clearly specify the types of service subject to tax, to impose the tax where the service is rendered within a local exchange area and to also tax like service furnished by companies other than telegraph and telephone companies. The present tax is restricted to service furnished by a telegraph or telephone company.

The bill as it passed the House continues the present 5-percent rate. The amendment increases the rate to 10 percent in the case of leased-wire service, teletypewriter service, and talking-circuit special service (which competes with telegraph service subject to tax under the amendment at 10 percent). Other wire and equipment service is in a somewhat different category, and as to it no change in the 5-percent rate provided by the House bill is recommended. Burglar- and fire-alarm service is not taxed under the amendment. Similarly, news-ticker service carrying general news has been exempted from the tax to be consistent with the like exemptions allowed in the case of newspapers with respect to the leased-wire tax.

This section also imposes a tax on amounts paid by subscribers for local telephone service and all other telephone service not otherwise within the tax with respect to telephone toll charges and the tax with respect to leased wires. For example, in addition to local subscribers' service, this tax also applies to telephone toll service where the charge is 24 cents or less. As the tax is imposed only on telephone service, special provision is made to insure that charges for installation of instruments, poles, switchboards, apparatus, and equipment are not subject to the tax. Although service through coin-operated telephones is not subject to the tax on local subscribers' service, it is subject to tax in the case of toll charges of more than 24 cents. Coin-operated telephone service cannot be subject to the tax because of the impracticability of charging the patron a percentage of 5 cents, and collecting the 5-percent tax through the instrument. As the tax on telephone toll service is collected in multiples of 5 cents, it can be collected through coin-operated telephones.

The committee bill increases the rate to 10 percent. No other change is made.

SECTION 549. INSTALLMENT, ETC., PAYMENTS

Section 549 makes certain changes in section 3441 (c) of the Internal Revenue Code which relates to articles leased or sold under installment or conditional sales contracts. Under section 3441 (c) the

taxpayer is permitted to pay the tax as payments are made under the lease or conditional or installment sales contract. The provisions of section 1650 (b) of the Internal Revenue Code are revised and included within section 3441 (c).

Under the bill as it passed the House, payments under leases and installment and conditional sales contracts, and existing sales entered into after June 30, 1941, would be subject to tax. If an existing tax rate were increased, payments after the effective date of the increase would be subject to the increased rate of tax. If a new tax were imposed, payments after its effective date would be subject to the new tax. Your committee is opposed to making such increased rates of tax retroactive to the extent that they would cover sales and leases made during the interim period prior to the inception of the tax. Accordingly, the section has been amended so that where the particular type of contract has been entered into before the effective date of part IV of the bill, and delivery made before such date, the increased tax rate, or the new tax, as the case may be, shall not apply.

SECTION 550. EFFECTIVE DATE OF PART IV

Section 550 contains provisions respecting the effective date of new taxes, or increases in existing rates of tax, or changes in tax base, effected by sections 541 to 548. With certain exceptions, the provisions are the same as those described in the discussion of section 536, i. e., the first day of the first month which begins more than 10 days after the date of the enactment of the bill. The changes with respect to the "cabaret" tax become effective at 10 a. m. on the effective date, for considerations peculiar to that tax. Special provision is made for the effective date of the tax imposed by section 548, with respect to local subscribers' telephone service, in order to give telephone companies (who will collect the tax for the Government) an opportunity to adjust their billing practices to the tax. It was also desired to restrict the application of the tax, as far as is reasonably practicable, to service rendered after the date of the enactment of the act. It is recognized, however, that some local service rendered prior to the date the act is enacted (but billed after such date) will be subject to the tax. It is intended to tax such service.

PART V. NEW EXCISE TAXES

SECTION 551. NEW MANUFACTURERS' EXCISE TAX

As passed by the House this section imposes taxes on sales by the manufacturer, producer, or importer, of the articles listed hereinafter at the rate given:

	Percent		*Percent*
Sporting goods	10	Business and store machines	10
Luggage	10	Rubber products	10
Electrical appliances	10	Washing machines	10
Photographic apparatus	10	Optical equipment	10
Electric signs	10		

In the case of sporting goods, luggage, electrical appliances, photographic apparatus, business and store machines, and optical equipment, the particular articles the sale of which is subject to tax are

named. Uniforms and sport clothing are not within the scope of the tax on sporting goods.

In the case of electric signs, the tax applies to articles falling within the general classifications of neon-tube signs, electric signs, and electric advertising devices.

It is recognized that a number of articles falling within the scope of the excise taxes listed herein may also fall within the scope of the jewelry retail sales tax imposed by section 552. Provision is accordingly made that such articles will be subject to the jewelry retail sales tax and not to the manufacturers' excise taxes imposed by this section.

Your committee has made the following changes:

Sporting goods.—Artificial lures, baits, and flies have been removed from the scope of the sporting-goods tax.

Electrical appliances.—The scope of this tax has been expanded by the inclusion of gas and oil water heaters and gas and oil stoves and cooking apparatus. Such added articles are directly competitive with the electrical articles taxed by this section as it passed the House.

Photographic apparatus.—Unexposed motion-picture film for use in making news reels is exempted from the tax by a provision included in section 553, which provides for appropriate credit or refund to the manufacturer.

Business and store machines.—A clerical change has been made in the provision with respect to these machines. In this section as it passed the House certain machines were included by trade names. The trade names have been deleted, and the particular machines included by appropriate description. Included in the list of business machines are fare registers and fare boxes. Fare registers and fare boxes for use on streetcars, busses, and other vehicles are taxable under this section and not as automobile accessories.

Washing machines.—As passed by the House this section taxed only washing machines of the kind used in commercial laundries. As many other household appliances are subject to tax under the bill, this section was changed to bring within the scope of the tax all washing machines, domestic as well as commercial.

Electric-light bulbs.—Under the committee bill, a 10 percent tax on the sale of electric-light bulbs by the manufacturer, producer, or importer is imposed. This proposed tax has been included as paragraph 10 of new section 3406 to be added to the Internal Revenue Code.

SECTION 552. NEW RETAILERS' EXCISE TAXES

This section adds a new chapter 19 imposing new taxes on retail sales of jewelry, furs, and toilet preparations each at the rate of 10 percent of the price for which the article is sold. The articles falling within the jewelry tax (including clocks, watches, cases, and movements) are articles which have in former jewelry excise taxes been classified as jewelry. There are added flat ware and hollow ware made of gold or silver, or plated. The tax will not apply to religious articles, surgical instruments, or frames or mountings for eyeglasses.

The fur tax is to be imposed on the sale of articles made of fur on the hide or pelt and articles of which such fur is the component

material of chief value. This is a classification which has been used in earlier manufacturers' excise taxes with respect to furs.

A tax on the sale at retail of toilet preparations is imposed in place of the existing tax on sales by the manufacturer (imposed by sec. 3401 of the Internal Revenue Code). Provision is made that beauty parlors and barber shops shall make monthly returns of toilet preparations used in the treatment of patrons and the quantity used during the month shall be considered to have been sold at retail by such establishments.

Section 552 contains, or makes applicable, the administrative provisions necessary to the administration of these retail sales taxes.

This section also provides that the present tax on sales of toilet preparations by the manufacturer (imposed by sec. 3401 of the Internal Revenue Code) shall not apply to articles sold after the effective date of the retail sales tax. Manufacturer's tax previously paid with respect to articles which will also be subject to the retail sales tax will not be refunded.

Your committee made a number of changes with respect to the retail sales taxes.

Fountain pens are excluded from the jewelry tax if the only part thereof which consists of precious metals is the point.

Relative to the tax on toilet preparations, section 552 adds section 2407 (c) to the Internal Revenue Code to permit a barber shop or beauty parlor to take credit for any retail-sales tax imposed by the bill which has already been paid on toilet preparations as to which the barber shop or beauty parlor is subject to tax.

A provision has also been added specifying certain rules for determining the price base on which the tax is to be computed. This provision is similar to that which has been in effect for many years in the case of the manufacturers' excise taxes. Particularly important is the provision that the amount of the retail-sales tax imposed by the bill shall be excluded in determining the price base for tax purposes. Similarly State sales taxes may be excluded provided they are stated by the retailer as a separate charge. If States sales taxes are not separately stated, but are included in the gross selling price, the tax is computed on the gross selling price. The Federal tax is to be excluded whether or not stated as a separate charge.

In the case of leases, conditional sales, and installment contracts, substantially the same treatment is given with respect to the retail sales taxes as is given with respect to the manufacturers' sales taxes, as more fully explained in the discussion of section 549. That is to say, the language of the section as it passed the House has been changed so that where the particular contract was made, delivery was made, and a part of the consideration was paid, before the effective date of the retail-sales taxes, no tax is imposed.

With a view to preventing the retail-sales tax from being used as a means of securing unfair competitive advantages a penalty provision has been included imposing a fine of not more than $1,000 on any person who in connection with the sale of an article represents that the price does not include the retail-sales tax imposed by the bill.

SECTION 553. ADMINISTRATIVE CHANGES IN MANUFACTURERS' EXCISE TITLE OF CODE

This section, added by the committee amendment, contains several administrative provisions believed important in the effective administration of the excise taxes imposed by the bill.

Leases.—A number of the articles subject to manufacturers' sales tax by the bill are articles which are generally leased by the manufacturer and not sold. Section 3440 of the code already defines the term "sale" to include a lease. In clarification of existing language, this section is amended to provide specially that a lease, including a renewal or extension of a lease, or a subsequent lease, of an article shall be considered a taxable sale.

Existing contracts.—This section also adds an existing-contracts section to the Internal Revenue Code. This section is quite similar to the existing-contracts section included in the Revenue Act of 1932 when the last large bloc of manufacturers' sales taxes was imposed. Your committee believes that provision should be made permitting tax liability to be shifted from the manufacturer to the vendee in the case of sales contracts entered into before the effective date of the particular sales tax or increased rate of tax, but consummated after that date, where the contract does not permit the inclusion of the tax in the sales price. This affords relief to those cases where manufacturers have not been able to protect themselves by inserting a tax clause in their sales contracts to provide that taxes, such as those included in the bill, would be passed on to their vendees. The clause in question is, in language, quite close to the text of section 625 of the Revenue Act of 1932, which now appears as section 3447 of the Internal Revenue Code.

Section 553 also includes the refund and credit provisions with respect to news-reel and motion-picture film referred to in the discussion of section 551.

SECTION 554. TRANSPORTATION OF PERSONS, ETC.

This section imposes a tax on the amount paid within the United States for the transportation of persons by rail, motor vehicle, water, or air, within or without the United States. The rate is 5 percent of the amount paid and tax liability is imposed on the person making the payment. Where the amount paid is less than 35 cents the tax does not apply. Round-trip tickets are not subject to tax if the amount payable for a one-way trip is less than 35 cents. In the case of commutation or season tickets the tax does not apply if the particular trips the holder of the commutation or season ticket is entitled to make under the ticket are less than 30 miles. For example, a commutation ticket entitling a person to transportation for a certain number of trips between two points is not subject to tax if the distance between the two points is less than 30 miles. These provisions will exempt local streetcar, bus, and taxi service, including amounts paid for tokens and passes. Amounts paid for commutation tickets for 1 month or less are also exempt from tax.

This section also imposes a tax on amounts paid for seating or sleeping accommodations in connection with taxable transportation.

Provision is made that the time for filing returns may be extended for as much as 90 days in order that carriers may have the necessary time to assemble, from widely scattered points, necessary data for making returns. Provision is also made that the tax shall not apply to transportation facilities furnished the United States, to any State or Territory or political subdivision thereof, or the District of Columbia.

Section 554 (c) provides that the stamp tax on steamship passage tickets imposed by section 3469 of the Internal Revenue Code shall not apply to any tickets the purchase of which is subject to tax under the new transportation tax.

One change has been made in the section as it passed the House. Provision has been made to exempt from the tax, with certain qualifications, amounts paid for transportation of personnel of the Army, Navy, Marine Corps, and Coast Guard, when in uniform and while on leave, and authorized cadets and midshipmen.

SECTION 555. COIN-OPERATED AMUSEMENT AND GAMING DEVICES

This section imposes an occupational tax of $25 per annum per machine on each person who maintains for use, or permits the use of, on premises occupied by him, a coin-operated amusement or gaming device. "Coin-operated amusement or gaming devices" are, briefly, machines which fall within the general classification colloquially referred to as "pinball" machines and "slot machines." A separate liability is incurred with respect to each machine, but if one such machine is replaced by another, such other machine will not be considered an additional machine.

By committee amendment the rate of tax on so-called pinball machines is reduced from $25 to $10 per annum and the rate of tax on so-called slot machines is increased from $25 per annum to $200 per annum.

SECTION 556. BOWLING ALLEYS, ETC.

This section imposes an occupational tax on persons operating bowling alleys, billiardrooms, or poolrooms. The rate of tax is $15 per annum for each bowling alley, billiard table, or pool table. All types of estabishments maintaining such equipment, including clubs or social organizations, etc., are subject to the tax. Maintaining such equipment in a private home is not subject to tax.

As in the case of other occupational taxes, the tax year begins July 1 of each year.

However, if after payment of tax and prior to the end of the tax year, additional bowling alleys, or billiard or pool tables, are placed in operation, a supplemental return must be filed and tax paid with respect to the additional equipment for the period beginning with the day of the month in which operation of the additional equipment commenced.

By committee amendment the rate is changed from $15 per annum to $10 per annum.

SECTION 557. USE OF MOTOR VEHICLES AND BOATS

This section imposes a tax on the use of motor vehicles and boats. In the case of motor vehicles the tax is $5 per annum. In the case of boats the rate of tax ranges from $5 per annum on boats having an over-all length of 16 feet or over but not over 28 feet to $200 per annum on boats over 200 feet in over-all length. In the case of motor vehicles the tax is to be paid by the person in whose name the motor vehicle is, or is required to be, registered. In the case of boats, the tax is to be paid by the owner of the boat. The effective date of the tax is February 1, 1942; that is, the use of motor vehicles and boats before that date is not subject to tax.

Section 3540 (b) (3) of the House bill defines the term "boat" but excludes from the definition boats used "exclusively" for trade or commercial fishing. The committee bill changes "exclusively" to "chiefly." The committee bill also exempts from the tax boats used by the Sea Scouts Department of the Boy Scouts of America chiefly for training scouts in seamanship.

SECTION 558. EFFECTIVE DATE OF PART V

This section provides that the new taxes imposed by sections 551 to 558 will take effect on the first day of the first month which begins more than 10 days after the date of the enactment of the act.

SECTION 561. PAYMENT OF PROCESSING TAX TO GUAM AND AMERICAN SAMOA

This section was added by committee amendment. It provides that the taxes collected with respect to the processing of coconut oil originating in Guam or American Samoa shall be held as separate funds and paid to the treasuries of these possessions. A condition is imposed that such funds shall not be used to subsidize producers of cocoa, coconut oil, and allied products in such possessions.

SECTION 602. SENATE LEGISLATIVE COUNSEL

Section 602 amends section 1303 of the Revenue Act of 1918 so as to provide that certain matters relating to the office of the legislative counsel of the Senate should be under the direction of the President pro tempore of the Senate.

TITLE VII—CREDIT AGAINST FEDERAL UNEMPLOYMENT TAXES

SECTION 701. CREDIT AGAINST FEDERAL UNEMPLOYMENT TAXES

This section, added by your committee to the House bill, allows further time within which a taxpayer may pay contributions into an unemployment fund under a State law and obtain credit therefor against the Federal unemployment tax for 1936, 1937, 1938, 1939, or 1940.

In each of the past 3 years a similar provision of law has been enacted. However, since this tax has been in effect for more than 5 years, a period in which taxpayers have had ample opportunity to familiarize themselves with the time limitation provided in the per-

manent law and to take advantage of prior relief legislation, your committee states that this relief legislation should be the last of its kind to be enacted.

Under subsection (a), paragraph (1), credit is allowable against the tax for 1936, 1937, or 1938, imposed by title IX of the Social Security Act, for contributions paid before the sixtieth day after the date of enactment of this act, if credit is claimed before the expiration of 6 months after such date of enactment. If the contributions are paid on or after December 7, 1940 (the sixtieth day after the date of enactment of the Second Revenue Act of 1940, containing similar relief provisions in section 701 thereof), the credit on account of such contributions is limited to 90 percent of the amount which would have been allowable if they had been paid before the due date of the Federal return. Paragraphs (2) and (3) provide in certain special cases for the allowance of credit, which is not subject to the foregoing limitations. These paragraphs continue without curtailment the relief heretofore granted in these cases by section 902 (a) (2) and (3) of the Social Security Act Amendments of 1939 and section 701 (a) (2) and (3) of the Second Revenue Act of 1940.

Subsection (b) provides similar relief in the case of the tax for 1939 or 1940 imposed by the Federal Unemployment Tax Act (subchapter C, chapter 9, Internal Revenue Code).

Subsection (c) provides for refunds, credits, and abatements, without interest, based on the credit allowable under subsections (a) and (b). It also provides that on and after the date of enactment of this act no refund, credit, or abatement shall be allowed which is based on any credit allowable under certain prior relief legislation, that is, section 810 of the Revenue Act of 1938, section 902 (a) of the Social Security Act amendments of 1939, and section 701 of the Second Revenue Act of 1940. This section does not affect any credit for contributions paid which is allowable solely by reason of the provisions of section 902 of the Social Security Act or section 1601 of the Federal Unemployment Tax Act.

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Calendar No. 703

77TH CONGRESS, 1st Session | SENATE | REPT. 673, Part 2

THE REVENUE BILL OF 1941

AGRICULTURAL

SEPTEMBER 2, 1941.—Ordered to be printed

Mr. CONNALLY, from the Committee on Finance, submitted the following

INDIVIDUAL VIEWS

[To accompany H. R. 5417]

As the only community-property-State Senator on the Finance Committee I desire to express my vigorous dissent from the committee amendment directed at the community-property system of eight sovereign States and to the manner in which this amendment was adopted without notice or hearing to those whose constitutions and laws governing property ownership are to be set aside or ignored.

This amendment proposes to treat the ownership of the wife in the community property and income as having been devised as a sham and a fraud for Federal income-tax purposes. Yet my own State of Texas came into the Union in 1845 bringing with it the community-property system in effect during its days as an independent republic. The original State constitution and the present one, adopted in 1876, recognized the community-property system and the courts of Texas have enforced and developed the rights of the wife in community property as strongly as those rights in her separate property.

In Louisiana, Arizona, New Mexico, Idaho, Nevada, and Washington, likewise, the community-property system is of equal historical and statutory dignity, and the wife's ownership of community-property income so firmly imbedded that the Treasury, the Attorney General of the United States, and the Supreme Court itself have consistently recognized that the one-half of the community income is that of the wife. To these was added the State of California when its legislature removed a temporary aberration that was engrafted on the community-property system which denied in some important particulars the full rights of the wife.

To treat the rights of the wife under the constitutions and statutes of eight great States as nonexistent flies into the very face of the heretofore well-recognized principle that the States control the ownership of property and income. To condone at the same time the continued reduction and avoidance of surtaxes by divisions and gifts of

property between husbands and wives in common-law States, which as the Secretary of the Treasury pointed out are made expressly for tax purposes, is indeed to add insult to injury. Constitutional and statutory rules of the eight community-property States are to be flouted; the income of the wife is to be "deemed" and "considered" to be that of the husband, but the deliberate transfer of income-producing property in the common-law States is not to be disturbed. The Finance Committee asks the Senate in this amendment to disregard the fundamental law of eight States of the Union, and, at the same time, recognize the local law of all of the other States of the Union as a guide and basis for the application of the Federal income-tax law.

Instead of penalizing the community-property system, as this amendment proposes, the Congress should encourage its spread. By its recognition of the contribution of the wife to the marital partnership earnings, the community-property system is far in advance of any common-law State. Services are recognized to be rendered by the marital community, and income as earned by husband and wife alike. Legal and practical standing is given to the concept of marital partnership which in common-law States remains spiritual only. Recognition is given to the fact that the wife is entitled to something more than food, clothing, and a place to sleep, and it ought to be the law everywhere. If there is any discrimination, that is the way it should be corrected.

The committee amendment attempts to force the husband to report as his own all of the community partnership income, when as a matter of law and fact the husband owns only one-half, and is merely the managing partner of his wife's half. This amendment ignores the fundamental laws of these States by treating as a nullity what is in substance a partnership created by law, while the bill recognizes fully the interests of every partner in purely voluntary partnerships in every common-law State.

Under the community-property system marriage creates a universal partnership. To its capital the husband and wife contribute their separate property and to it they must contribute their full services, and divide the resulting income share and share alike. Whether the husband or the wife is the managing partner, as each may be as to certain classes of property income, is unimportant as long as a real partnership exists. It is terminated by divorce in which event the community property is equally divided, regardless of guilt, or by death in which the deceased husband or wife has full disposition of his half of the community property. If necessary to protect the rights of the wife against fraud or dissipation, receivership and separations of property can be ordered by the courts without divorce. The courts require the use of the property for the benefit of both partners and will restrain its waste or diversion to others.

The community partnership is also terminated if the husband and wife move their domicile to a common-law State; yet under the proposed amendment, since the new State will recognize that the husband and wife each own an undivided one-half interest in the accumulated community property, the income from it can be divided if the spouses move from Louisiana to New York, but must all be reported by the husband if they remain in Louisiana. Surely the

wife's ownership is just as real in one case as the other. Indeed, it would not exist to be recognized by New York laws except for its accumulation under the beneficent laws of a community-property State. If the proposed amendment is adopted, we will have the unfair and illogical situation of Congress recognizing for income-tax purposes the law of common-law States which recognize and enforce the law of the eight community partnership States, but when dealing directly with the citizens of community partnership States the local community partnership law will be ignored and disregarded.

In effect the amendment proposes to tax the one-half of the community income belonging to the wife to the husband, by providing that it shall be "deemed" or "considered" to be that of the spouse who receives it or who has management and control of it.

This proposal to single out the citizens of community-property States to compel them alone to pay tax on income belonging to their spouses is certainly violative of due process under the fifth amendment to the Constitution.

The Supreme Court of the United States in a series of carefully prepared and presented cases held that one-half of the community income belonged to the husband and one-half to the wife, that it was actually owned by them in these proportions, and therefore taxable to them in such proportions (*Poe* v. *Seaborn*, 282 U. S. 101; *Hopkins* v. *Bacon*, 282 U. S. 122; *Bender* v. *Pfaff*, 282 U. S. 127; *Goodell* v. *Koch*, 282 U. S. 118). The sixteenth amendment gives Congress authority to tax income—but it does not give it authority to tax the income belonging to one person to another. Those incidents of ownership, legal and beneficial, established by State law have always been recognized as governing by the Federal courts and by Congress. The very incidents, legal and beneficial, of ownership by husband and wife in community income which the Supreme Court held made one-half of it taxable to the husband and one-half to the wife are also governing as to the power of Congress to tax one spouse with the income of the other.

The Supreme Court held unconstitutional an attempt of a State to tax the husband upon income belonging to his wife in *Hoeper* v. *Tax Commission* (284 U. S. 206), on the ground that it violated the due-process clause of the fourteenth amendment. The same due-process clause is equally applicable to such action by Congress under the due-process clause of the fifth amendment (*Heiner* v. *Donnan*, 285 U. S. 312).

The present action is more directly contrary to the holding in the *Hoeper case* than the universal mandatory joint return proposal for there can be no question of creating a family classification in eight States of the Union, nor is there a question of measuring the tax by a combined income. The proposal is to tax one person on income which the Supreme Court has held legally and beneficially belonged to another. This proposed action falls under the direct condemnation of the *Hoeper case* even as the joint committee counsel interprets it.

On August 4, in considering this same bill, the House rejected decisively a proposal to disregard individual ownership and property rights of husbands and wives in all States by requiring mandatory joint income tax returns. Yet this committee in executive session has adopted an amendment to the tax bill which in substance and practical effect is a mandatory joint returns requirement applicable only

to eight States. Moreover, although several governors of community-property States and many Senators vigorously protested the hasty action of the committee and repeatedly asked for an opportunity for their representatives to be heard, these requests were ignored by the committee. No opportunity whatever was given to the representatives of the eight community-property States to explain the legal and practical meaning of their local laws demonstrating the fairness and equity of separate returns and the gross discrimination that would result from the proposed amendment.

This last-minute action was ill-considered and hasty in view of the fact that it was taken without hearing the facts and law involved, and that substantially the same amendment had been rejected three times in previous years (1921, 1924, and 1934) after full hearings held by the Ways and Means Committee during which an opportunity had been given to representatives of the community-property States to explain the fairness of separate returns under the local community partnership laws, and the unjust discrimination which would result from the proposed legislation.

The proponents of this discriminatory community-property amendment evidently hope that this will be an entering wedge and a step toward reviving and adopting the recently defeated universal mandatory joint returns proposal at a later date. They expect that later on they will have greater support in their attempt to impose this inequitable proposal on the other States by reviving the discredited and House-rejected universal mandatory joint returns amendment.

It should be noted that the universal mandatory returns proposal which was decisively defeated in the House was not rejected by the Senate Finance Committee. Action on the Treasury suggestion for its revival was simply postponed on the theory that it was a matter that properly should be considered in connection with the administrative bill which is to be submitted to the Ways and Means Committee the last part of September. Accordingly, an open hearing, full discussion and renewed consideration of that question can be expected in connection with the administrative bill. It is astonishing and inconsistent, to say the least, that the Finance Committee did not take similar action with reference to any modified proposal, such as the amendment they adopted with reference to the eight community-property States. The action of the Finance Committee is all the more inconsistent and confusing because the mandatory proposal adopted by it aimed only at the eight community-property States, unlike the universal mandatory joint returns proposal, has not been debated either in the Ways and Means Committee or on the floor of the House. On the other hand, when it has been considered in the past, in 1921, 1924, and 1934, after full hearings, it has been rejected.

This action of the committee can only be explained on the theory that the advocates of mandatory joint returns hoped by these tactics to divide those who opposed such returns in the thought that if the new provision is incorporated in the present tax bill, a mandatory joint return provision in the administrative bill will follow as a matter of course.

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Calendar No. 703

77TH CONGRESS } SENATE { REPT. 673
1st Session } { Part 3



THE REVENUE BILL OF 1941

SEPTEMBER 2.—Ordered to be printed

Mr. LA FOLLETTE, from the Committee on Finance, submitted the following

INDIVIDUAL VIEWS

[To accompany H. R. 5417]

PART I. INTRODUCTION

The pending revenue bill as reported to the Senate is a vicious assault on the rank-and-file taxpayer. It is inadequate, inequitable, and, in my opinion, indefensible. It conforms to no standards of justice or fairness. It "soaks" the poor while confirming, protecting, and entrenching the corporate wealth and power engendered by the defense program. It levies the major share of the costs of "all-out" defense on those who have the least property to protect and those who have the least ability to pay.

The bill is a hodge-podge of inconsistencies, with no underlying principle of taxation whatsoever, except that like many previous tax bills, it "plucks the goose that squawks the least." Unfortunately, the small individual taxpayer who will dig deep into his pockets to pay these bills has not made himself heard.

TAX YIELD INADEQUATE

Although the committee tax bill is the largest in our history, it is no answer to the present urgent fiscal situation. The 3.6 billions of dollars are hopelessly inadequate in the face of a 50- or 60-billion dollar defense program, a 49-billion-dollar national debt, and a probable deficit this fiscal year, over and above this tax bill, of more than 10 billion dollars.

The proposed patchwork on the present faulty tax structure, and the hiking of present rates, are not a solution to the Government fiscal problems. It is not commonly appreciated that defense spending has created an extraordinary situation which must be met by extraordinary taxation, not only as to degree of taxation, but also as

to kind of taxation. No doubt taxes must be heavier; but, more than that, they must be revised so as to be more equitable and to conform to the present situation.

EXCESS PROFITS

The Government is pumping billions of defense dollars into our industrial structure. Huge profits are accruing to industry. Generally speaking, the initial and primary beneficiaries are the corporations. It is not punitive taxation—it is just good common-sense fiscal policy supported by expert economic, as well as layman, logic—that a lion's share of all excess and defense profits be siphoned back into the Government Treasury. To the extent that such profits are diverted from the general income stream, the dangers of inflation are accordingly reduced.

The excess-profits tax should be a major item in our tax structure. Such a tax in the fiscal year 1920 yielded about 45 percent of total Federal revenues. In the fiscal year 1942, the excess-profits tax will provide less than 7 percent of total Federal revenue. Even with the full-year effect of the changes proposed now, less than 15 percent of total revenues will be derived from the excess-profits tax. Of course, substantial increases have been made and further increases are proposed in the corporate normal tax and surtax rates, but the entire corporate share of taxes is still far below the World War proportion. Furthermore, in periods of abnormal profits the corporate tax burden is not as equitably distributed by normal income taxes and surtaxes as by an excess-profits tax.

LOWERED INCOME-TAX EXEMPTIONS UNJUSTIFIED

There is no justification whatsoever in dipping further into the poor man's income—whether by hidden excise taxes, or lowered income-tax exemptions—if and until adequate excess-profits levies are made by the Government.

During the Senate debate on the Second Revenue Act of 1940, on September 13, I commented as follows:

> Taxation levied without regard to ability to pay and falling heaviest on those with least ability to pay has been increasing constantly. Such was the case when we considered the first tax bill during the present session of Congress. That bill further increased the inequity of our tax structure. It dumped a heavier burden on the backs of the plain people of the country in the form of increased taxes levied without regard to ability to pay. Prior to the enactment of the first revenue bill of the present session of Congress, almost $400,000,000 was collected annually from the manufacturers' excise taxes, which are, in the last analysis, passed on largely to the consuming public. The bill which we passed in June increased these nuisance taxes by more than $140,000,000.
>
> The bill as passed in June increased corporate taxes only 17 percent, as compared with a 35-percent increase in the yield of excise taxes and a 37-percent increase in the yield of individual income taxes.
>
> I have been an advocate of broadening the base of the income tax, in the hope that increased revenue derived from taxation levied in accordance with ability to pay would enable us to shift some of the crushing burden of indirect nuisance taxes, which are levied without regard to the ability of the taxpayer to pay, on to the sound principle of graduated taxes.
>
> But, Mr. President, as I stated during the debate on the revenue bill passed in June, I saw absolutely no justification for a broadening of the income-tax base at the same time excise taxes and direct taxes were increased by such enormous percentages.

On June 19, 1940, I said in debate on the floor of the Senate:

As the chief advocate in this body in past years for broadening the income-tax base, I must now state that I consider it is a gross inequity to the low-income taxpayers to ask them to increase their taxes, and, at the same time fail to ask the corporations, which are going to be vastly enriched by the necessity for national rearmament, to carry their fair share of the load, according to their ability.

Now, 15 months later, the situation is even worse.

Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, writing in Fortune Magazine for August 1941, states the entire thought well in these words:

During the emergency the excess-profits tax should, in my opinion, be the keystone of a well-balanced tax program. Increased taxes, however, should not be imposed on the great numbers of small business concerns and on millions of individual taxpayers until they have been given every reasonable assurance that the funds they are being asked to provide will not go to swell the profits of wealthy individuals and corporations.

GENEROUS TREATMENT FOR ESTATES AND GIFTS

The singularly harsh treatment accorded the low-income taxpayer under the committee bill is entirely reversed when dealing with the wealthy taxpayer bequeathing huge estates and gifts. Exceptionally generous exemptions of $40,000 are allowed—53 times as great as the exemption for a single man under the income tax recommendation—and only moderate rates are applied. Although the Treasury Department proposed to lower these exemptions to $25,000, neither the House Ways and Means Committee nor the Senate Finance Committee would concur.

ROBERT M. LA FOLLETTE, SR., IN 1917

In August 1917, 24 years ago, when the Senate of the United States was debating the first real World War revenue bill, my father made an energetic and dramatic fight for a fair and adequate tax program. Recently, when rereading the minority report he submitted to the Senate, I was highly impressed by the following excerpts from his remarks. In my opinion, they are noteworthy of attention in connection with the present bill. They are as true now as they were true then.

He was championing a new tax theory—the Federal income tax was only 4 years old—when he said:

Complicated as is the subject of public finance, there are certain principles and certain truths underlying the science that are self-evident. Among these is the principle that the burden of taxation should be apportioned among the taxpayers in accordance with their ability to pay. Another is that income or profits constitute if not the best, at least one of the best standards by which to measure ability to pay * * *. We must look to the income tax and the war-profits tax to maintain the credit of the Nation and make it possible for our people to bear the awful burdens of this war.

In answer to those who would impose but moderate rates on excess profits—and there are some who take the same position on this bill—my father used these words:

To advocate low rates at present on war profits, with a view to leaving a margin for a later day, is to leave out of sight the fact that this prolific source of revenue will automatically disappear with the end of the war and that the opportunity to tax each year's profits passes with the year. Failure to draw on this source to

the fullest possible extent while the war lasts will therefore result in throwing a much larger burden of taxation upon the people and the normal industries of the country at a time when the easily made war profits will no longer be available, and when business of the country will be staggering under the burden of readjustment.

To those apprehensive of the effects of a stiff excess-profits tax he directed these words:

> Neither the war-profits tax nor the income tax is a levy on capital. Both of these taxes are levied upon extraordinary and unusual profits. Even if they absorbed the greater part of the profits of individuals such taxes would not in any way affect the income of the same individual the next year. The capital remains. The tax does not impair the earning power of that capital.

With respect to excise and nuisance taxes, he wrote:

> It is monstrously unfair to tax the everyday necessaries of the average man and woman to pay the expenses of this war, in addition to commanding their services, and the lives of many of them, and of their children, so long as the above-mentioned swollen and abnormal profits are not taken—profits which the war has created and which will disappear as soon as the war ends. Every dollar of the above profits can be taken and still the enormous peacetime profits of these and other great corporations will not be touched. * * * Will anyone contend that the necessaries of the poor shall be taxed so long as these enormous war profits remain as a source of revenue?

He added these prophetic words about excise taxes:

> Once we admit that excise taxes of this sort are to be levied at all at this time, we will find them mounting with every increasing tax levy. * * * These taxes will endure after the period of the war. * * * Later, it will be these consumption taxes upon the necessaries of life that will be drawn upon to meet the needs of the Government. It is both unjust and unwise.

Part II. The Tax Structure: Past, Present, and Proposed

PRESENT TAX STRUCTURE COMPARED WITH 1917–20

In many respects the present fiscal situation is directly parallel with the World War tax problems two decades ago. The war then and the defense program now have entailed unprecedented governmental expenditures which in turn require unprecedented general taxation. Production and profits have soared. Just as in World War I, the Government is struggling to bolster the Treasury revenues by imposing new taxes.

Of course, we have grown—about 30 millions in population. Our production has doubled and our national income has almost doubled. But the tax picture is much the same, with perhaps this single exception: Our national debt stood at 1¼ billion dollars in 1917. It is 40 times as great now. This backlog of debt in the present picture more than counterbalances the exigencies of actual war in the past picture.

Most everyone will agree that the Government fiscal policies and tax program in the last World War were shockingly inadequate. The war-tax policies—or lack of policies—permitted the accumulation of unconscionable profits for individuals and corporations. The war-tax policies failed to arrest inflation. Whatever other shortcomings existed, it is clear that the Government erred on the side of insufficient taxation of war profits.

Despite the gross inadequacy of the tax structure in the World War, how does it compare with the present tax structure?

Table 1, below, is an abbreviated statement of internal-revenue receipts for the 1920 and 1942 fiscal years, based on estimates of the Treasury Department. The table shows that the over-all tax load has increased about 70 percent (supported, of course, as previously mentioned, by a larger population, a larger production, and a larger national income).

The most significant facts to note from the table are that excise taxes have almost tripled and individual taxes have more than doubled while corporation taxes are yielding only slightly more revenue than in 1920. It is significant to note, too, that the bulk of present corporate taxes is being derived from the income tax instead of the excess-profits tax as in 1920.

All indications are that the next few years will be banner profit years for most corporations. Yet, in the fiscal year 1942, corporations will bear only about 36.3 percent of the Federal tax load, as against 56.7 percent borne in 1920.

TABLE 1.—*Internal revenue receipts by major categories—Estimated receipts in present fiscal year under present law compared with 1920 tax receipts*

[Millions of dollars]

	1920 [1]	1942 [2]
Total	5,736	9,724
Corporation taxes	3,252	3,535
Income [3]	653	2,627
Excess profits	2,503	679
Other [4]	93	229
Individual taxes	1,232	2,529
Income [3]	1,128	2,078
Estate and gift	104	451
Excise and pay-roll taxes	1,252	3,660
Tobacco and liquor	435	1,563
Manufacturers' excises	268	676
Other miscellaneous taxes	549	429
Social security, etc		992

[1] Fiscal year reports of the Government for 1918–24 do not show separately the various categories of income-tax collections. Hence, the calendar-year-income basis as reported in the Treasury Department's Statistics of Income is used here.
[2] Treasury Department estimates as revised June 1, 1941.
[3] Includes a relatively small amount collected from back taxes.
[4] Includes the capital-stock tax and the declared-value excess-profits tax.

RECENT TRENDS IN FEDERAL TAXATION

Despite all the vaunted statements in recent years in behalf of taxation based on the principle of ability to pay, it is a hard, cold fact that the Federal tax structure has steadily become more and more regressive and more and more burdensome to the common man. Tables 2 and 3 are clear-cut proof of the trend in the last 15 years.

As shown by table 2, excise taxes have steadily grown. In the fiscal year 1940 the total collected in this manner was almost fivefold that collected from the same source in 1927. Despite the fact that the aggregate tax burden had increased almost 85 percent in 1940 over 1927, corporations in 1940 fiscal year paid a less dollar amount in taxes in 1940 than in 1927.

As shown by table 3, corporation taxes comprised about 46 percent of total revenues in 1927; 40 percent in 1932; 26 percent in 1937; and only 24 percent in 1940. On the other hand, excise and pay-roll taxes constituted about 19 percent of total Federal revenues in 1927; 29 percent in 1932; 44 percent in 1937; and 51 percent in 1940. Even with the exclusion of social-security taxes, the percentages of the latter 2 years are high—38 and 35 percent, respectively.

TABLE 2.—*Internal revenue receipts by major categories—Receipts in fiscal years 1927, 1932, 1937, and 1940*

[Millions of dollars]

	1927	1932	1937	1940
Total	2,866	1,558	4,653	5,303
Corporation taxes	1,317	630	1,219	1,276
Income [1]	1,308	630	1,057	1,117
Other [2]	9		162	159
Individual taxes	1,011	474	1,397	1,346
Income [1]	911	427	1,092	986
Estate and gift	100	47	305	360
Excise and pay-roll taxes	538	454	2,037	2,681
Tobacco and liquor	397	407	1,146	1,232
Manufacturers' excises	67		451	447
Other miscellaneous taxes	74	47	175	170
Social security, etc			265	832

[1] Includes a relatively small amount collected from back taxes.
[2] Includes the capital-stock tax and the declared-value excess-profits tax.

TABLE 3.—*Percentage distribution of internal revenue receipts by major categories, fiscal years 1927, 1932, 1937, and 1940*

	1927	1932	1937	1940
	Percent	*Percent*	*Percent*	*Percent*
Total	100.0	100.0	100.0	100.0
Corporation taxes	46.0	40.4	26.2	24.1
Individual taxes	35.3	30.5	30.0	25.4
Excise and pay-roll taxes	18.7	29.1	43.8	50.5
Excluding social security			38.1	34.9

The preceding tables illustrate well the comparative trends as between corporation taxes and excise taxes. It is somewhat difficult, however, from those tables to discern the comparative trends between individual and corporate taxes because both have become a relatively smaller part of total Federal revenues while excise taxes have skyrocketed.

An interesting comparison on a different basis can be made from a table adapted from the 1940 Annual Report of the Treasury Department, in which Federal tax liabilities are estimated under certain assumed conditions. For one set of estimates (column 1) it is assumed that the tax structure of May 1932 is in effect in the calendar year 1941 (i. e. at that level of income); column 2 is under the assumption the tax structure of July 1932 is in effect; column 3, the tax structure of December 1940.

As can be observed from the following table and the percentages calculated therefrom, Federal taxes on individuals have increased substantially more than on corporations. The Revenue Act of 1932 was especially bad in this respect.

TABLE 4.—*Estimated Federal tax liabilities* [1] *for calendar year 1941, based on the tax structures of (1) May 1932, (2) immediately following the passage of the Revenue Act of 1932, and (3) December 1940 (tax base assumed to be independent of tax structure)*

[In millions of dollars]

Tax group	Under laws—		
	(1) Of May 1932 immediately preceding the passage of the Revenue Act of 1932	(2) Of July 1932 immediately following passage of Revenue Act of 1932	(3) Of Dec. 31, 1940
Individual income, estates, and gifts	594	1,308	2,230
Corporate income and profits	1,277	1,594	3,723

[1] Source: 1940 Annual Report, Treasury Department, p. 3.

TABLE 5.—*Percentage increases—tax structure after Revenue Act of 1932 compared with structure immediately preceding and tax structure of December 1940 compared with each*

	Percentage increase	
	(2) over (1)	(3) over (1)
	Percent	*Percent*
Individual income, estates, and gifts	+120	+275
Corporate income and profits	+25	+192

YIELDS OF THE PRESENT TAX STRUCTURE COMPARED WITH YIELDS UNDER THE PROPOSED COMMITTEE BILL

To complete this series of comparisons made on the basis of the relative burden on the various kinds of taxpayers, a comparison should be made of the present tax structure and the structure as it will be under the committee bill. Tables 6 and 7 make that comparison on a basis comparable with previous tables.

It should be noted that both sets of estimates on table 6 are based on fiscal year 1942 level of income and that both are hypothetical years in that they represent full-year effects. In such respect, they differ from estimated actual receipts (as shown on table 1). For example, about $679,000,000 will be collected in excess-profits taxes in the fiscal year 1942. However, the full-year tax liability on 1942 levels of income would be $1,026,000,000. Similarly, under the proposed bill, the hypothetical full-year effect is estimated to be $2,156,000,000 from excess-profits taxes, but, according to the Treasury, only about 45 percent of the additional amount under this bill would be collected in the next fiscal year.

An examination of tables 6 and 7 shows that an inordinate increase is proposed in individual income taxes contrasted with corporation taxes; in fact, the corporate share of total Federal taxes is actually reduced from 40.4 percent of the total to 39.6 percent. The share to be borne by individual taxes is increased from 25.7 to 28.5 percent. Excluding the social-security tax (which as yet has not been increased), the share borne by excise taxes is increased from 24.7 to 25.0 percent.

TABLE 6.—*Internal-revenue receipts by major categories—Estimated receipts under present law compared with estimated receipts under Finance Committee bill (hypothetical full-year yields at levels of income estimated for fiscal year 1942)*

[Millions of dollars]

	Present law [1]	Under new bill [2]
Total	10,793	14,486
Corporation taxes	4,359	5,738
Income [3]	3,099	3,363
Excess profits	1,026	2,156
Other [4]	234	219
Individual taxes	2,774	4,129
Income [3]	2,323	3,520
Estate and gift	451	609
Excise and pay-roll taxes	3,660	4,619
Tobacco and liquor	1,563	1,701
Manufacturers' excises	676	966
Other miscellaneous taxes	429	960
Social security, etc	992	992

[1] Differs from estimates of receipts in 1942 fiscal year insofar as the full effects of the 2 Revenue Acts of 1940 are not reflected in the fiscal year estimates of income and excess-profits taxes, etc. Compare with 1942 fiscal year estimates under present law in table 1.

[2] Assuming that all provisions of the law were fully reflected in receipts for an entire year.

[3] Includes a relatively small amount collected from back taxes.

[4] Includes the capital-stock tax and the declared-value excess-profits tax.

TABLE 7.—*Percentage distribution of estimated internal revenue receipts by major categories—Fiscal years 1920, 1942, and hypothetical full-year yields at 1942 levels of income under present law and under new bill*

	1920 [1]	1942 [1]	Hypothetical years	
			Present law	New bill
	Percent	*Percent*	*Percent*	*Percent*
Total	100.0	100.0	100.0	100.0
Corporation taxes	56.7	36.3	40.4	39.6
Individual taxes	21.5	26.0	25.7	28.5
Excise and pay-roll taxes	21.8	37.6	33.9	31.9
Excluding Social Security		27.4	24.7	25.0

[1] See footnote on table 1.

All of these statistics merely go to prove two facts which are almost self-evident without a recital of detailed statistics:

1. The present tax structure is inequitable.
2. The committee bill will make it worse.

Part III. Defects in the Committee Bill in the Taxation of Excess Profits

In my opinion, the most serious defect of the committee bill is the failure to tax excess profits adequately or fairly. Despite persistent and cogent recommendations of the Treasury Department that the entire method of taxing excess profits be overhauled, the committee bill makes no fundamental corrections in the present law, nor even recognizes the shortcomings evidenced during the first year of operation.

Corporations prosperous during the base period are still not required to pay taxes commensurate with their ability to pay and commensurate with a fair and reasonable rate of return. Other corporations which have profited very substantially, and directly, from Government spending are not contributing their fair share.

Previous efforts to secure an adequate tax

Last year, during the consideration of both the First and Second Revenue Acts of 1940, I made a strenuous effort to gain congressional approval of an excess-profits tax based solely on invested capital. Although the Senate approved my plan, 41 to 31, in June 1940, it was eliminated in conference with the declaration that an excess-profits tax would be enacted later. A miserable compromise tax plan was adopted a few months later. In September when the bill was under consideration by the Senate, I submitted a minority report explaining my opposition to the compromise excess-profits tax.

The objections I raised then are applicable now, with greater force. I quote at length from the report because I believe the arguments are unanswerable—in fact, already vindicated in many respects after 1 year's operation under the present law:

> The Finance Committee has reported a highly objectionable tax bill to the Senate. * * * It violates every principle of sound tax theory.

The bill is based on a confused and unsound theory of excess profits

The President in his message to Congress on July 1, 1940, urged that Congress enact an excess-profits tax to help pay for the defense program because, "it is our duty to see that the burden is equitably distributed according to ability to pay so that a few do not gain from the sacrifices of the many." Yet this bill is not based on any principle of ability to pay. Apparently it intends to tax merely the extra profits due to the defense expenditures—"defense profits" rather than "excess profits."

The so-called earnings method of the bill is supposed to measure defense profits directly. Earnings in the taxable year are compared with earnings in the base period and the increase, if any, is called excess. Two basic assumptions are involved which are not true in a large percentage of cases: First, that the earnings during the base period are "normal." Second, that the increase is "excess" or due to defense expenditures. Actually, with respect to the former, a base period that is normal for corporations as a whole is almost invariably abnormal in varying degrees for corporations individually. With respect to the latter, there is no reasonable assurance that the increase is "excess," or due to defense expenditures.

Witness after witness testified before the Ways and Means and Finance Committees that their earnings were abnormal during the base period or that increased earnings had nothing whatsoever to do with the defense program. Obviously, the bill exempts large amounts of defense profits and taxes large amounts of non-defense profits without any recognition of the sound principle of ability to pay.

Furthermore, there is no satisfactory way of distinguishing between defense profits and other profits. No chemical test can be applied to make a precise

separation. Dollars lose their identity when flowing through the economic system. Products which have an important use in the defense program may have a simultaneous important use in normal industrial activity. Paint for a battleship is the same as paint for industrial machinery. Shoes for the Army are the same as shoes for the farmer. Even with complex accounting systems no satisfactory separation of profits can be made. Surely no rule-of-thumb method of comparing profits in the taxable year with profits during some previous years affords an adequate separation.

The most serious defect in the bill from the standpoint of tax theory is the attempt to combine two opposing theories of taxation in one bill. The net effect is to include the shortcomings of both without the advantages of either. The loopholes in the bill are doubled. The revenue yield is reduced well below what might be obtained under either method separately. The situation becomes a "heads you win, tails I lose" proposition for the Treasury. In addition, highly inequitable situations are created among competitive corporations which are forced by circumstances to use different methods of tax computation.

(2) THE BILL AFFORDS UNWARRANTED PREFERENTIAL TREATMENT TO CERTAIN CORPORATIONS

The large prosperous corporations with consistent substantial profits are those most able to pay an excess-profits tax. Under this bill, they will pay little or no tax. No matter if they are earning 20, 50, 100, or 1,000 percent on their invested capital, they may continue, under the average earnings method of this bill, to earn those profits without additional tax. A tremendous advantage is accorded the established prosperous corporation against a competitor who suffered a depressed condition during the base period or the newly organized corporation which has not become established.

(3) THE BILL ENCOURAGES MONOPOLY AND DISCRIMINATES AGAINST COMPETITORS OF PROSPEROUS ESTABLISHED CORPORATIONS

If there was ever a tax measure which promised to perpetuate monopolistic corporations in their monopolies, it is this one. Three corporations, A, B, and C, are competitors. Corporation A is a quasi monopolist earning profits of 25 percent on invested capital during the base period. Corporation B, struggling against terrific odds, earned 9 percent. Corporation C is newly organized. In 1940, corporation A continued to earn 25 percent; B earned 15 percent; C, 9 percent. This would be typical experience because it is a well-known fact that a certain development period with low profits is typical of the new corporation.

Under the average earnings method of this tax bill, corporation A would pay no excess-profits tax whatsoever. Corporation B would pay a substantial tax though its earnings were much less. Corporation C would also have to pay an excess-profits tax, unless it were small enough so that the $10,000 flat exemption gave it relief.

This tax would be an insurmountable barrier to fair competition among the corporations. No more powerful club than this could be placed in the hand of corporation A. No other concern could successfully challenge its quasi-monopolistic position. If during any future year corporations B or C did achieve the same level of profits as corporation A, they would pay most of it in additional taxes while corporation A went untaxed. The most likely result would be bankruptcy for B and C; a complete monopoly for A.

This inequity inherent in the committee amendment may be further illustrated by the following example, which shows the excess-profits tax that would be payable under the committee amendment by each of two corporations having the same invested capital and excess-profits net income during the taxable year. One of these corporations—corporation A—is, however, an established company with stabilized earnings and the other, corporation B, is a growing enterprise competing with corporation A.

	Corporation A	Corporation B
Current year:		
Excess-profits net income	$1,000,000	$1,000,000
Invested capital	$5,000,000	$5,000,000
Rate of return—percent	20	20
Base period:		
Excess-profits net income (average)	$1,000,000	$200,000
Invested capital (average)	$5,000,000	$5,000,000
Rate of return (average)—percent	20	4
Taxable excess profits:		
Average earnings method	0	$790,000
Invested capital method	$590,000	$590,000
Tax:		
Average earnings method	0	$349,000
Invested capital method	$249,000	$249,000
Tax liability [1]	0	$219,000

[1] Excludes the 3.1 percent increase in normal corporation income tax.

It is a serious charge that this bill should condone and encourage monopoly, but perhaps even more serious is the severe penalty that is placed on the new or growing corporation. Such a corporation probably received little profit during the initial years and is now entering into a period when the work of earlier unprofitable years is beginning to bear fruit. The bill allows no future prosperous years for the new or growing corporation; it envisages an economy with the present inequities "frozen" into the future. The precedent herein set will make it all the more difficult at some later date to tax these "privileged" corporations adequately. The hue and cry then will be raised, just as it has been raised to a certain extent now, that the stockholders who have recently purchased stock at high prices because of anticipated high earnings have a vested interest which should not be disturbed. The idea is fallacious, but to allow it to go unchallenged here in this tax bill would give it a cloak of validity which would be hard later to remove.

Entirely disregarded in H. R. 10413 is one of the cardinal principles of taxation: That the burden should be fairly distributed. The preponderance of testimony during the hearings clearly demonstrates that many taxpayers are more concerned about the equity of the tax than the amount of the tax. Aside from those corporations with high earnings which will be able to take advantage of the average earnings tax method, corporations in general are willing to bear almost any reasonable load provided their competitor is treated similarly. The average earnings method and the hodgepodge of a dual method of computing tax liability precludes equal treatment for all.

It has been said in answer to the above contentions that it is not the function of a tax bill to remove existing competitive disadvantages or advantages. This answer is specious. One can agree that it is not the purpose of a tax bill to equalize competitive conditions. But it is undeniable that tax bills should not distort existing competitive conditions and place unwarranted tax handicaps upon one class of corporations as opposed to another, thereby creating an indefensible competitive advantage in favor of the latter. The objection to the committee amendment is not that it does not equalize existing competitive conditions. Rather the objection is that the committee amendment in and of itself creates new and far-reaching competitive advantages. The invested-capital method, on the other hand, does not create or give rise to either new competitive advantages or new competitive disadvantages. It simply imposes an excess-profits tax which falls alike on corporations regardless of their competitive position and thereby does not disturb existing competitive conditions.

(4) THE RATES OF THE TAX IN THE BILL ARE NOT GRADUATED FAIRLY

The rates in the bill are graduated according to the amount of so-called excess profits. This means that a large corporation may make only a very small percentage of excess profits on its capital and still pay the highest rate of tax. Thus, a corporation with $100,000,000 of invested capital and $1,000,000 of taxable excess profits will pay the same tax as a corporation which has the same amount of taxable profits on an invested capital of only $1,000,000. In other words, the brackets are now graduated without reference at all to the earnings or size of a corporation, and a corporation which had excess profits amounting to a 100-percent return on invested capital would pay no more tax than a corporation having excess

profits amounting to 10 percent on invested capital, providing the absolute amounts of excess profits were the same.

Profits cannot be divided sharply into those that are excessive and those that are not. Excessiveness is a matter of degree and the tax rate should be graduated according to the degrees of excessiveness, not simply according to the amount of excess profits. A proper rate structure for an excess-profits tax would graduate the rate according to the ratio of profit to invested capital. Under the rate structure as it now stands, many corporations with extremely excessive profits will pay much more moderate taxes than other corporations with only moderate excess profits.

ESTIMATED ADDITIONAL REVENUE

The Treasury Department estimates that an additional $1,394,700,000 in corporation taxes will flow into the Treasury in the full-year effect of the committee bill. Proponents of the measure point to an alleged increase in the excess-profits tax yield of $1,130,600,000. The figure is somewhat misleading. The yield is achieved only after reversing the tax-deduction procedure, and at an expense of $501,100,000 in the yield of the normal corporate income tax.

Thus, in order to obtain the same (or slightly more) than present tax revenues from the normal net income of corporations, the committee found it necessary to impose new surtax rates of 6 and 7 percent. The net additional yield in this bill from excess profits, over and above the surtax yield, is only $629,600,000.

With an excess-profits tax based solely on invested capital, and without any increase in the rates in the pending bill, the Treasury estimates that $1,880,000,000 additional yield could be derived from excess profits—about $650,000,000 more than the committee bill. Thus, with a full-year effect, a total of $2,900,000,000 would be derived from excess profits—a figure not unreasonable in view of the $2,500,000,000 collected from excess profits in 1920.

PRESENT AND PROSPECTIVE LEVELS OF CORPORATION PROFITS

The direct and indirect effects of Government defense spending are not yet fully reflected in the level of corporation profits. But already the profits are at record high levels. The National City Bank of New York reports the profits of 360 leading corporations in the first half of 1941 to be 20.9 percent above a year ago—after allowing for prospective taxes. Last year's first half was 58.6 percent above the previous year, again after taxes, depreciation, interest, and other charges, and reserves.

Tables 8 and 9 show the data in detail by major industrial groups.

TABLE 8.—*Profits of leading corporations for the half year*

Net profits are as reported, after depreciation, interest, taxes, and other charges and reserves, but before dividends—net worth includes book value of outstanding preferred and common stock and surplus account at beginning of each year

[In thousands of dollars]

No.	Industrial groups	Net profits, half year		Percent change	Net worth Jan. 1		Annual rate of return (percent)	
		1940	1941		1940	1941	1940	1941
7	Baking	7,970	7,608	−4.5	236,681	237,381	6.7	6.4
14	Food products, miscellaneous	34,974	39,194	+12.1	534,953	541,084	13.1	14.5
7	Beverages	8,132	9,088	+11.8	129,922	136,421	12.5	13.3
17	Textiles and apparel	7,862	10,654	+35.5	176,025	169,854	8.9	12.5
7	Wood products	1,326	4,515	+240.5	59,360	61,281	4.5	14.7
14	Paper products	6,883	7,892	+14.7	159,185	164,248	8.6	9.6
28	Chemicals, drugs, etc	92,082	94,021	+2.1	1,300,074	1,331,123	14.2	14.1
11	Petroleum products	141,070	135,227	−4.1	2,666,201	2,671,664	10.6	10.1
13	Stone, clay, and glass	12,220	14,807	+21.2	221,718	223,378	11.0	13.3
26	Iron and steel	61,915	126,111	+103.7	2,447,002	2,491,210	5.1	10.1
12	Building equipment	7,536	11,519	+52.9	224,738	219,780	6.7	10.5
14	Electrical equipment	42,863	47,662	+11.2	637,133	652,618	13.5	14.6
10	Hardware, tools, etc	4,604	6,373	+36.6	82,764	85,572	11.3	14.9
27	Machinery	16,377	21,204	+29.5	158,471	175,062	20.7	24.2
4	Office equipment	8,232	11,557	+40.4	133,264	136,668	12.4	16.9
10	Railway equipment	9,498	13,051	+37.4	173,403	182,930	11.0	14.3
9	Automobile	116,701	125,860	+7.8	1,149,449	1,190,568	20.3	21.1
19	Auto equipment	10,781	14,293	+32.6	111,478	120,197	19.3	23.8
36	Metal products, miscellaneous	20,354	29,603	+45.4	220,815	246,232	18.4	24.0
19	Miscellaneous manufacturing	9,947	18,119	+82.2	316,893	326,785	6.3	11.1
304	Total manufacturing	621,387	748,358	+20.4	11,139,809	11,364,056	11.2	13.2
10	Coal mining	[1] 830	[1] 2,698	+225.1	201,314	206,617	.8	2.6
9	Metal mining	[1] 8,787	[1] 9,649	+9.8	164,037	167,564	10.7	11.5
9	Mining, quarrying—miscellaneous	[1] 9,276	[1] 9,536	+2.8	124,419	121,393	14.9	15.7
16	Trade (wholesale and retail)	3,459	5,982	+72.9	209,447	211,858	3.3	5.6
12	Service and construction	8,389	8,317	−.9	226,955	229,531	7.4	7.2
360	Total	652,128	784,540	+20.3	12,065,981	12,301,019	10.8	12.8

[1] Before certain charges.
D—Deficit.

Source: Bulletin of National City Bank of New York, August 1941.

TABLE 9.—*Comparisons of profits of leading corporations for the first half year 1939, 1940, and 1941—percentage change in net profits after depreciation, interest, taxes, and other charges and reserves, but before dividends*

	Increase 1940 over 1939	Increase 1941 over 1940
Baking	−8.5	−4.5
Food products, miscellaneous	5.1	12.8
Beverages	21.5	11.8
Textiles and apparel	51.3	35.5
Wood products	1,129.2	240.5
Paper products	137.8	14.7
Chemicals, drugs, etc	38.8	2.1
Petroleum products	209.1	−4.1
Stone, clay, and glass	35.9	21.2
Iron and steel	451.1	103.7
Building equipment	180.2	52.9
Electrical equipment	66.7	11.2
Hardware, tools, etc	78.9	36.6
Machinery	238.8	29.5
Office equipment	28.7	40.4
Railway equipment	492.0	37.4
Automobile	17.6	7.8
Auto equipment	62.7	32.6
Metal products, miscellaneous	107.8	45.4
Miscellaneous manufacturing	−14.5	82.2
Total, manufacturing	60.8	20.4

TABLE 9.—*Comparisons of profits of leading corporations for the first half year 1939, 1940, and 1941—percentage change in net profits after depreciation, interest, taxes, and other charges and reserves, but before dividends*—Continued

	Increase 1940 over 1939	Increase 1941 over 1940
Coal mining	(1)	225.1
Metal mining	41.7	9.8
Mining, quarrying, miscellaneous	24.0	2.8
Trade (wholesale and retail)	10.9	72.9
Service and construction	5.2	—.9
Total, all groups	58.6	20.3
(Total, all groups, increase in first half of 1941 over 1939: 92.6 percent.)		

[1] Data not comparable.

Source: Bulletins of the National City Bank of New York, August 1940 and August 1941.

It is interesting to note, in this connection, that most corporations are laying aside very generous reserves in anticipation of vastly increased taxes. The Wall Street Journal, for example, recently reported:

Tax mystery: United Aircraft recently reported tax reserves of over 78 percent of its current profits.

The top any corporation has to pay is 72 percent, including income, excess profits, and surtaxes. This suggests United, like many another big industrial company, is using ultraconservative bookkeeping to avoid phony profits, must report more liberally to the Government and to its stockholders.

Detailed compilations of corporation profits, for individual corporations, as taken from published financial reports, 1940 compared with 1939, and the first half of 1941 compared with the first half of 1940, have been published in the Economic Outlook for February and July 1941. The compilations are reproduced below in tables 10 and 11.

TABLE 10.—*Corporation profits in 1940 compared with 1939* [1]

Company	1940	1939	Percent increase
Allegheny-Ludlum Steel	$3,700,000	$2,093,518	77.0
American Can	17,440,906	18,284,963	—4.6
American Metal	3,689,957	2,994,740	23.0
American Tobacco	28,311,782	26,427,934	7.0
American Woolen	3,154,464	2,311,887	36.4
Aviation Corporation (year ending Nov. 30)	88,350	—2,238,049	
Babcock & Wilcox	3,588,199	1,168,782	206.0
Bath Iron Works	2,052,180	660,703	211.0
Bell Aircraft	284,745	9,203	3,000.0
Bethlehem Steel	48,679,524	24,638,384	97.5
Bridgeport Brass	1,258,776	459,058	174.0
Caterpillar Tractor	7,839,117	6,004,890	30.6
Chrysler Motors	37,802,279	36,879,829	2.4
Commercial Solvents Corporation	2,387,321	1,600,389	49.2
Consolidated Coal	402,290	—863,915	
Container Corporation	2,227,682	1,448,900	54.0
Continental Can	8,953,632	8,635,787	3.7
Crucible Steel	6,230,180	2,803,596	122.0
Douglas Aircraft (year ending Nov. 30, 1940)	10,831,971	2,884,197	275.0
Dupont, E. I.	86,945,173	93,218,664	—6.7
Electric Auto Lite	6,001,718	5,653,839	6.1
General Cable	2,455,362	733,166	235.0
General Electric	56,241,000	41,235,644	36.5
General Foods	15,244,077	15,118,063	.8
General Motors	195,500,000	183,290,222	6.7

[1] Most of the profits herein listed are net profits and hence the figures are not directly comparable with figures used elsewhere in this minority report when speaking of net income before taxes.

TABLE 10.—*Corporation profits in 1940 compared with 1939*—Continued

Company	1940	1939	Percent increase
General Steel Casting	$1,106,196	$5,661	19,560.0
Goodrich Tire & Rubber	6,104,993	6,628,746	−7.9
Goodyear Tire & Rubber	10,309,788	9,838,797	4.8
Harbison-Walker Refractories	2,513,936	1,868,999	35.0
Inland Steel	14,450,385	10,931,016	32.2
International Harvester (year ending Oct. 31, 1940)	23,161,110	7,952,810	191.0
Jones & Laughlin Steel	10,277,029	3,188,944	222.0
Lehigh Coal & Navigation	1,101,853	18,674	5,700.0
Libbey-Owens-Ford Glass	9,992,766	8,062,753	24.0
Mack Truck	1,805,821	682,987	166.0
Mesta Machine	3,083,032	2,715,427	13.5
Monarch Machine	1,183,102	529,577	123.0
National Distillers Products Corporation	6,711,962	7,007,124	−4.4
National Gypsum	1,565,196	1,455,237	7.9
National Lead	6,102,702	5,780,500	5.6
New Jersey Zinc	8,236,815	5,299,055	55.5
New York Air Brake	1,046,656	797,858	40.0
New York Ship Building (first 11 months 1940)	2,178,748	928,246	135.0
North American Rayon Corporation	1,781,425	2,010,252	−11.4
Otis Steel	717,007	214,965	234.0
Pittsburgh Coal Co	1,255,893	−1,068,787	
Pittsburgh Steel Co	1,555,794	564,870	175.0
Pure Oil	8,718,057	8,290,418	5.2
Radio Corporation of America	9,113,156	8,082,810	12.9
Rayonier, Inc. (9 months to Jan. 31)	3,031,953	1,425,193	112.5
Remington Rand (9 months ending Dec. 31, 1940)	2,026,372	1,104,418	83.4
Republic Steel	21,113,597	10,671,343	98.0
Rustless Iron and Steel	1,275,993	1,090,876	16.9
Savage Arms Corporation	1,028,141	349,307	195.0
Shell Union Oil	15,600,000	11,805,713	32.1
Taylor Craft Aviation Corporation	57,059		
Union Bag & Paper Co	2,129,946	965,532	120.0
United States Rubber	11,425,241	10,218,849	12.0
United States Steel	102,181,321	41,119,934	148.0
Vultee Aircraft (year ending Nov. 30, 1940)	374,457	25,488	1,370.0
Walworth Co	1,123,156	205,900	445.0
Warner & Swasey	3,371,283	1,864,553	81.0
Western Union	3,621,581	1,380,114	163.0
Westinghouse Air Brake	5,591,606	2,765,629	102.0
Westinghouse Electric	18,983,428	13,854,365	37.0
Wheeling Steel	5,663,930	5,560,753	1.8
Yellow Truck & Coach Co	5,813,976	3,276,474	77.5
Youngstown Sheet & Tube	10,815,468	5,004,484	116.0

TABLE 11.—*Corporation profits in the first half of 1941 compared with the first half of 1940*

Corporation	Profits		Percent change
	First 6 months 1941	First 6 months 1940	
Air Reduction Co	$4,066,135	$3,106,096	30.8
Allegheny Ludlum Steel	4,169,347	1,893,291	120
Allis Chalmers	2,389,577	2,609,758	−9.2
American Brake Shoe & Foundry	1,479,341	1,226,637	20.5
American Radiator Co	3,271,009	1,535,905	113
American Rolling Mill Co	6,667,976	2,084,599	220
American Slating Co	282,227	100,197	182
American Steel Foundries	2,067,719	1,666,525	24.1
Anaconda Wire & Cable	1,410,519	497,259	184
Atlas Powder	938,110	744,518	26.1
Babcock & Wilcox	1,850,063	1,474,905	25.4
Baldwin Locomotive (12 months—June)	2,486,344	1,734,344	43.3
Bausch & Lomb Optical Co	1,174,528	767,285	53
Bendix Aviation (12 months—June)	11,687,229	6,613,180	77
Blaw-Knox Steel	1,220,496	602,717	102
Bohn Aluminum & Brass	817,087	592,181	38
Bridgeport Brass	867,494	506,167	71.4
Budd Wheel	915,972	394,445	132
Caterpillar Tractor	4,298,540	3,509,514	22.5
Consolidated Coal	317,872	136,257	134
Container Corporation	663,649	509,100	35
Continental Oil	2,642,082	1,007,852	163
Coos Bay Lumber	341,259	95,043	259
Copperweld Steel Co	919,952	521,314	77

TABLE 11.—*Corporation profits in the first half of 1941 compared with the first half of 1940*—Continued

Corporation	Profits		Percent change
	First 6 months 1941	First 6 months 1940	
Crosley Corporation	$798,634	$96,661	725
Crucible Steel	2,924,430	1,817,293	61
Detroit Steel	431,636	209,939	106
E. I. duPont	43,761,797	46,853,695	−7.1
Eaton Manufacturing Co	1,979,764	1,908,348	3.8
Fruehauf Trailer	1,137,977	519,583	119
General Electric	26,003,665	25,981,752	0.09
General Steel Castings	1,690,900	72,958	2,210
General Tire & Rubber	1,004,443	280,563	259
General Motors Corporation	118,177,905	113,575,460	4
Goodrich Co	6,646,033	1,362,691	388
Hazel Atlas Glass	1,396,788	1,270,963	10
International Business Machines	4,728,336	4,293,482	10.1
Johns-Manville Corporation	1,457,213	1,110,319	31.2
Jones & Laughlin Steel	8,098,227	3,276,256	147
Lehigh Coal & Navigation (year ending June 30)	1,848,300	138,812	1,230
Lehigh Valley Coal Corporation	605,434	251,440	141
Libbey-Owens-Ford	5,377,247	5,176,748	3.9
Magma Copper Co	800,142	717,587	11.6
Mathiesen Alkali Works	997,345	827,540	20.6
Minneapolis-Honeywell Regulator	1,104,278	603,921	83
Nash-Kelvinator (9 months to June)	3,734,246	1,307,878	186
National Lead	3,289,000	3,119,810	5.4
New York Air Brake	1,121,446	832,818	34.6
North American Aviation	3,900,745	2,367,638	64.7
Otis Steel	1,088,255	−362,143	
Owens Illinois Glass	7,640,538	8,589,202	−11
Pepsi-Cola	3,300,000	2,525,000	30.6
Phillips Petroleum	8,236,680	6,378,198	29.2
Remington Rand, Inc. (June quarter)	1,383,693	565,240	145
Reo Motors	147,994	−785,988	
Republic Steel	13,618,716	6,449,453	111
Reynolds Metal	1,886,853	1,312,447	43.8
Rustless Iron & Steel	1,164,460	430,537	171
Sharon Steel	813,241	388,903	109
Sloss-Sheffield Steel & Iron Co	863,464	572,543	51
Sunshine Mining	1,186,431	1,285,934	−7.8
Studebaker	1,313,877	957,309	37.3
Texas Pacific Coal	469,505	292,840	60
Union Carbide & Carbon	21,342,134	19,972,176	6.9
United Aircraft Products	346,329	172,948	100
United States Pipe & Foundry	1,816,700	783,018	132
United States Steel	61,374,746	36,315,003	69
Virginia Iron, Coal & Coke	27,788	−10,528	
Walworth Co	909,820	203,415	350
Westinghouse	11,568,400	9,837,012	17.6
Westinghouse Air Brake	4,011,380	3,204,000	25.2
West Virginia Coal & Coke	179,053	−87,466	
Wheeling Steel	4,689,196	1,664,078	182
White Motor Co	791,355	743,529	6.5
Youngstown Sheet & Tube	8,992,994	2,423,212	276

GOVERNMENT CONTRACTS AND CORPORATION PROFITS

Presently available data are not sufficient to make any thorough study of profits earned on Government contracts. Although the data below in table 12 are far from conclusive, it shows that some corporations obtaining large Government defense contracts have also earned phenomenal increases in profits.

TABLE 12.—*Relationship between Government contracts and corporation profits*

[NOTE.—From June 1940 to June 1941 the War and Navy Departments allocated $9,839,000,000 of supply contracts of which 73.9 percent in dollar value was awarded to 56 companies. Published financial data, which may differ somewhat from data submitted for income-tax purposes, are available for 14 of these corporations. The table below sets forth the dollar value of contracts received and the percentage increase in profits in 1940 over the average net income in the base period years 1936–39. Obviously, in most cases the contracts were merely awarded and not completed; hence, only part of the profits from Government contracts are reflected. Obviously, too, the profits reflect additional business from other than Government sources which may or may not be indirectly due to the defense program]

Corporation	Dollar value of defense contracts (in millions)	Percentage increase in profits in 1940 over 1936–39 average
New York Shipbuilding	507.3	2,448
General Motors	489.9	51
Curtiss-Wright	443.9	1,051
Newport News Shipbuilding	389.2	441
du Pont de Nemours	318.5	77
Glenn L. Martin	249.1	230
United Aircraft	224.5	452
United States Steel	209.9	163
Electric Boat	126.1	289
Sperry Corporation	108.0	238
American Car & Foundry	81.2	2,470
Chrysler Corporation	74.0	24
Lockheed Aircraft	46.5	328
Hercules Powder	29.9	92
Total	3,298.0	[1] 91.5

[1] Weighted.

PROFITS NOW AND PROFITS IN 1916

Another common allegation is the assertion that profits now do not compare with profits in the last war. Again, no conclusive evidence is available, but the following table of a few companies chosen at random is interesting in depicting "Shades of 1916."

TABLE 13.—*"Shades of 1916"—Comparison of net income of selected corporations in pre-World War and World War years with 1936–39 pre-defense and 1940 years.*

[Millions of dollars]

Corporation	Pre-war 1911–13	1916	Pre-defense 1936–39	1940
American Woolen Co	1.75	5.86	−0.32	3.96
Continental Can	.79	2.14	9.98	12.24
Du Pont de Nemours	5.53	82.11	63.44	112.53
General Motors	4.56	28.79	221.67	335.75
Hercules Powder	1.02	16.66	5.29	10.14
International Paper & Power	1.11	4.62	5.12	23.18
Standard Oil of New Jersey			171.98	197.37
Standard Oil of Indiana	14.68	30.04		
United States Steel	63.59	271.53	59.24	155.83

Source: Current data from published financial reports. 1911–16 data from p. 62, Minority Report of Senator Robert M. La Follette, Sr., to H. R. 4280, 65th Cong., Revenue Act of 1917.

KINDS OF EXCESS PROFITS NOT REACHED BY THE COMMITTEE BILL

Apart from the fact that the two-headed plan of computing excess profits makes the Treasury a loser every time, the present excess-profits tax does not reach two major types of excess profits: (1) The profits of those prosperous corporations which have earned substantial net income during the base period, and (2) the profits of those cor-

porations which have earned phenomenal increases in profits due to the defense program, and yet are not liable for taxation thereon because of a high capitalization.

The injustices and abnormal competitive situations arising out of the former type were fully discussed in my minority report last year to the Second Revenue Act of 1940 (and quoted previously in this report). The situations arising out of the latter type have been discussed by the Treasury Department before both the House Ways and Means Committee and the Senate Finance Committee. The Assistant Secretary of the Treasury, Mr. Sullivan, told the House committee:

> Many corporations that are the principal beneficiaries of the defense effort and that hold large Government contracts are paying little or no excess-profits tax * * *. To meet this defect, we would suggest revising the 1940 proposal to provide * * * a tax at a low flat rate, possibly 10 percent, to that part of the current profits that is in excess of the base-period earnings * * *.

The House of Representatives adopted the proposal, but a majority of the Finance Committee saw fit to delete this special provision. The steel companies, railroads, and coal companies were thereby saved $67,700,000—which the committee added to the tax burden of the low-income taxpayer and corporations in general. In my opinion, not only should this special rule be applied, but the rates should be higher than the 10 percent suggested by the Treasury.

The specific illustrative examples below, typical examples, show the facts concerning corporations which fall into these two categories. Coca Cola, Chrysler, J. C. Penney, General Motors, and Liggett & Myers are illustrative of corporations earnings substantial profits during the base period. United States Steel, American Woolen, American Car & Foundry, and International Paper & Power are illustrative of corporations with high invested capital.

TABLE 14.—*Illustrative typical examples of corporations earning substantial net incomes during the base period 1936–39 and tax year 1940: Comparison of excess-profits tax liability (present law) under invested capital and average earnings methods*

[NOTE.—Computations are based on published financial data which may differ somewhat from data for income-tax purposes]

EXAMPLE NO. 1. COCA-COLA

	Millions of dollars
Net income:	
1936	27. 1
1937	32. 0
1938	33. 5
1939	39. 1
Average, 1936–39	33. 1
1940	43. 9
1940 equity capital	89. 0
Return on equity capital:	*Percent*
1936–39	37. 0
1940	49. 3
	Millions of dollars
Approximate excess-profits tax, 1940:	
Invested capital method	13. 1
Average earnings method	1. 0
Difference	12. 1

TABLE 14.—*Illustrative typical examples of corporations earning substantial net incomes during the base period 1936–39 and tax year 1940: Comparison of excess-profits tax liability (present law) under invested capital and average earnings methods*—Continued

EXAMPLE NO. 2. CHRYSLER

	Millions of dollars
Net income:	
1936	76.2
1937	63.0
1938	22.5
1939	47.9
Average, 1936–39	52.4
1940	64.8
1940 equity capital	188.8
Return on equity capital:	*Percent*
1936–39	27.8
1940	34.3
	Millions of dollars
Approximate excess profits tax, 1940:	
Invested capital method	17.0
Average earnings method	3.7
Difference	13.3

EXAMPLE NO. 3. J. C. PENNEY CO.

	Millions of dollars
Net income:	
1936	22.0
1937	19.7
1938	16.6
1939	20.0
Average, 1936–39	19.6
1940	21.8
1940 equity capital	85.6
Return on equity capital:	*Percent*
1936–39	22.9
1940	25.4
	Millions of dollars
Approximate excess-profits tax, 1940:	
Invested capital method	4.8
Average-earnings method	.4
Difference	4.4

EXAMPLE NO. 4. GENERAL MOTORS

	Millions of dollars
Net income:	
1936	282.3
1937	245.8
1938	130.3
1939	228.3
Average, 1936–39	221.7
1940	335.7
1940 equity capital	1,156.9
Return on equity capital:	*Percent*
1936–39	19.2
1940	29.0
	Millions of dollars
Approximate excess profits tax, 1940:	
Invested capital method	81.3
Average earnings method	39.1
Difference	42.2

TABLE 14.—*Illustrative typical examples of corporations earning substantial net incomes during the base period 1936–39 and tax year 1940: Comparison of excess-profits tax liability (present law) under invested capital and average earnings methods*—Continued

EXAMPLE NO. 5. LIGGETT & MYERS

	Millions of dollars
Net income:	
1936	28. 4
1937	25. 1
1938	25. 0
1939	24. 7
Average 1936–39	25. 7
1940	27. 1
1940 equity capital	154. 3
	Percent
Return on equity capital:	
1936–39	16. 7
1940	17. 6
	Millions of dollars
Approximate excess-profits tax, 1940:	
Invested capital method	3. 97
Average earnings method	. 02
Difference	3. 95

TABLE 15.—*Illustrative typical examples of corporations earning substantially increased net incomes in 1940 over the base period 1936–39, but which are not liable for heavy excess-profits taxation: Comparisons of excess-profits tax liability (present law) under invested capital and average earnings methods*

[NOTE.—Computations are based on published financial data which may differ somewhat from data for income tax purposes]

EXAMPLE NO. 1, UNITED STATES STEEL

	Millions of dollars
Net income:	
1936	62. 3
1937	125. 4
1938	−4. 8
1939	54. 1
Average, 1936–39	59. 2
1940	155. 8
Excess of earnings in 1940 over 1936–39 average	96. 6
Excess-profits tax liability	0. 0

EXAMPLE NO. 2. AMERICAN WOOLEN CO.

	Millions of dollars
Net income:	
1936	2. 55
1937	−1. 69
1938	−4. 87
1939	2. 74
Average, 1936–39	−. 32
1940	3. 96
Excess of earnings in 1940 over 1936–39 average	4. 28
Excess-profits tax liability	0. 00

TABLE 15.—*Illustrative typical examples of corporations earning substantially increased net incomes in 1940 over the base period 1936–39, but which are not liable for heavy excess-profits taxation: Comparisons of excess-profits tax liability (present law) under invested capital and average earnings methods*—Continued

EXAMPLE NO. 3. AMERICAN CAR & FOUNDRY

	Millions of dollars
Net income:	
1936	1. 41
1937	. 96
1938	−1. 54
1939	. 20
Average, 1936–39	. 26
1940	6. 58
Excess of earnings in 1940 over 1936–39 average	6. 32
Excess-profits tax liability	0. 00

EXAMPLE NO. 4. INTERNATIONAL PAPER & POWER CO.

	Millions of dollars
Net income:	
1936	5. 69
1937	9. 62
1938	. 20
1939	4. 96
Average, 1936–39	5. 12
1940	23. 18
Excess of earnings in 1940 over 1936–39 average	18. 06
Excess-profits tax liability	2. 13

PART IV. OTHER DEFECTS IN THE BILL

1. THE ESTATE- AND GIFT-TAX EXEMPTIONS AND RATES ARE TOO GENEROUS

The original Treasury recommendations proposed to reduce the estate- and gift-tax exemptions from $40,000 to $25,000 (with the insurance exclusion reduced similarly) and to apply tax rates on the net estate ranging from 4 to 70 percent, and on gifts, three-fourths of the estate-tax rate. It was estimated that the additional revenue yield would be $347,200,000.

The Ways and Means Committee rejected the proposal and merely increased the rates somewhat on net estates and gifts in excess of the present exemptions of $40,000. The Finance Committee made but minor changes. Hence, the bill as now recommended to the Senate will raise only an additional $157,600,000 from this source—less than one-half of the Treasury recommendation.

In my opinion, the original recommendations of the Treasury were amply justified. Except for the argument that small estates and gifts should be reserved to the States for taxation, no compelling argument has been raised to justify exemptions of $40,000 during the present fiscal emergency. Even the State-tax-base argument loses much of its validity in the face of much more serious encroachments of the Federal Government in the taxation of gasoline and individual income. It must be exceedingly difficult for those who favor a $40,000 estate-tax exemption to explain why the single man or woman earning less than $15 a week should pay an income tax based on an exemption of less than one-fiftieth as much. Under the bill as recommended by a majority of the committee, an estate of $41,000

will bear a Federal tax of $30. The same amount will be paid in income tax by a single individual earning $21.65 a week.

It is significant to observe that Great Britain imposes a $1,600 tax on a $40,000 estate (conversion unit: £1 equals $4). Even a $2,500 estate in Great Britain is taxed $50.

2. THE COMMITTEE BILL IMPOSES AN UNJUST AND INEQUITABLE AUTOMOBILE USE TAX

This proposed tax is a flat levy which would be paid in equal amount by the owner of a Ford or a Cadillac, by the 20,000-miles-a-year driver and the 500-miles-a-year driver. In the words of Mr. Sullivan during the Senate hearings on this bill:

> The proposed tax has no relationship to the extent of use or the value of the object taxed and, therefore, is unusually inequitable. It taxes a $5,000 town car exactly the same $5 as the fifth-hand car worth only $20. It will conflict directly with one of the most important State and local sources of revenue. In some States, the proposed tax will in effect increase the average cost of automobile registration by more than 100 percent. The proposed tax must be collected from 32,000,000 taxpayers located throughout every State and county in the country. This would require additional personnel in the Bureau of Internal Revenue of at least 3,800 new employees. The administrative cost is estimated to be $9,600,000 or approximately $6 per $100 of tax collected, which is more than five times the average cost of collecting other excise taxes.

The average motor-vehicle operator is already paying more than his share in gasoline and excise taxes and registration and other fees. Each motor vehicle in 1939, according to reliable estimates, paid an average tax of $50.82. The burden has grown since.

If it were deemed necessary to put an additional tax on automobiles, it would be more logical to increase the excise tax on new automobiles from the proposed 7 to 10 percent. With the curtailment in production necessary because of national defense, the consumer would be more than willing to pay the additional tax to secure a car; the supply and demand situation would be less acute; and the Government, instead of the manufacturer, would benefit from an increased price which is likely to be paid by the consumer in any case.

3. THE COMMITTEE BILL PLACES VARIOUS EXCISE TAXES ON A "PERMANENT" BASIS

Since the enactment of the Revenue Act of 1932, various taxes have been carried in our tax structure as "temporary taxes." They were renewed periodically by legislation extending the date of applicability. The committee bill makes these taxes "permanent." I, for one, have held the hope that these regressive taxes might be wiped off the statute books. The committee recommendation will make the future elimination of these taxes difficult, if not impossible.

4. THE COMMITTEE BILL FAILS TO CORRECT THE PRESENT OVERLY GENEROUS DEPLETION ALLOWANCES GRANTED FOR TAX PURPOSES TO CONCERNS ENGAGED IN THE EXTRACTION OF NATURAL RESOURCES

As pointed out by Secretary Morgenthau in the hearings before the Finance Committee, the present tax laws are too generous in dealing with depletion allowances. No one questions the fact that reasonable maintenance, depreciation, and obsolescence allowances must

be made in arriving at net income. However, the degree of such allowances must be measured and governed by comparative sacrifices borne by other taxpayers.

5. THE COMMITTEE BILL FAILS TO TAX A CONSIDERABLE VOLUME OF STATE AND LOCAL SECURITIES WHICH ARE STILL EXEMPT FOR INCOME TAX PURPOSES

The surtax in the committee bill, it is true, will reach a part of the interest derived from partially tax-exempt securities. About $31,600,000 in additional Federal revenue will be derived therefrom. However, a large bloc of securities will still remain untaxed. More than 19 billion dollars of State and local securities are wholly tax exempt.

Exhaustive studies of this subject have been made by both the Congress and the Treasury Department. The Treasury Department under several different administrations has consistently advocated the removal of the tax exemptions. Economists are practically unanimous in agreeing that there is no rhyme or reason in allowing interest from Government bonds to go untaxed.

In my opinion, the Finance Committee should have given consideration to this subject in connection with this bill and, once and for all, eliminated the vestige of old tax theories on the subject.

6. THE LOWERED EXEMPTIONS ON THE PERSONAL INCOME TAX ARE UNJUSTIFIED

When Secretary Morgenthau appeared before the Senate Finance Committee on August 8, 1941, he said, speaking of lowered tax exemptions:

* * * We ought not to accept such sacrifices, even though willing sacrifices, from millions of people with low incomes on whom the burden of other types of taxes falls most heavily, unless we reach in other places ability to pay which is escaping its fair share of taxes. Among these are the following:

The excess-profits tax exempts profits of even the most prosperous corporation, except to the extent that such profits are in excess of its average profits for the years 1936–39. Surely Congress will not wish to impose additional taxes on millions more of our low-income group unless it also imposes the excess-profits tax on exempt excess profits of such corporations.

Families pay lower Federal income taxes when both husband and wife receive incomes than when the same total amount of income is received by only one of them. This is a discrimination of which many wealthy people have taken advantage by large gifts of income-producing property between husband and wife.

For years, the concerns engaged in extracting certain of our natural resources, notably oil, have been granted far greater allowances for depletion than can be justified on any reasonable basis of tax equity. If the income tax is to be extended to lower incomes, this privilege of tax escape should simultaneously be removed.

A few months ago the Congress eliminated the tax-exemption privilege from new issues of Federal securities. The purchasers of new State and local securities still enjoy this exemption. The exemption was inequitable and expensive even in normal times. It cannot be borne longer in a time like this, and especially if we are to increase the direct tax burdens of persons with smaller incomes.

In its suggestion to the Ways and Means Committee the Treasury recommended substantial increases in estate and gift taxes and lower exemptions. In part, this recommendation was followed but in my opinion, the estate and gift taxes should reach more estates and provide more revenue if we are going to tax smaller incomes.

Could anything more emphatic have been said about what should come first?

What did the committee do? They complied with none of the qualifying provisions, but proceeded to lowering the exemptions nevertheless.

As an advocate in past years for the lowering of income-tax exemptions, I have consistently maintained that such was a preferable choice as between that or consumption taxes. I still adhere to that view. But I am wholly unwilling to soak the poor man with both. That is precisely what this bill does.

The T. N. E. C. Monograph No. 3, entitled "Who Pays the Taxes," reveals some facts that many pressure groups are trying desperately to discredit. It reveals that, because of hidden and regressive taxes consumers in the lowest income brackets are paying a larger share of, their income in taxes than are substantially wealthier income groups.

I am unwilling to place a heavier burden on them through this bill.

The following tabulation shows concisely how income-tax rates and exemptions have been changed in past years.

Federal individual income-tax rates

Income year	Personal exemptions		Normal tax rate	Surtaxes		Maximum, normal, and surtax
	Single	Married		Begin at—	Range of rates	
			Percent		*Percent*	*Percent*
1913–15	$3,000	$4,000	1	$20,000	1–6	7
1916	3,000	4,000	2	20,000	1–13	15
1917 [1]	1,000	2,000	2.4	5,000	1-63+	67+
1918	1,000	2,000	6–12	5,000	1–65	77
1919–20	1,000	2,000	4–8	5,000	1–65	73
1921	1,000	2,500	4–8	5,000	1–65	73
1922–23	1,000	2,500	4–8	6,000	1–50	58
1924	1,000	2,500	2–6	10,000	1–40	46
1925–28	1,500	3,500	1½–5	10,000	1–20	25
1929	1,500	3,500	½–4	10,000	1–20	24
1930–31	1,500	3,500	1½–5	10,000	1–20	25
1932–33	1,000	2,500	4–8	6,000	1–55	63
1934–35	1,000	2,500	4	4,000	4–59	63
1936–39	1,000	2,500	4	4,000	4–75	79
1940	800	2,000	4.4	4,000	4.4–75+	79+

[1] Certain individuals and partnerships were subject also to an excess-profits tax in 1917.

Source: Compiled from Statistics of Income and Revenue Acts. Because of numerous changes in the detailed provisions of the latter, the rates tabulated above are not strictly comparable.

Part V. Conclusions

The existing tax structure is inequitable. It violates the principle of ability to pay. The pending tax bill if enacted into law will impose even greater burdens upon the great masses of the people who have the least ability to pay. Taxes which mean a reduction of an already unconscionably low standard of living are proposed to be levied while fat profits from defense spending get off with only a relatively minor share of the total burden.

Smaller corporations are threatened by an economic pincers movement more powerful than the giant monopolies have ever been able to muster, fostered by Government itself. We face a paradox of depression and underemployment in the midst of defense prosperity. The two jaws of the Government pincers movement are priorities and defense contracts. Priorities are depriving nondefense industries of raw materials necessary for their existence. Defense contracts

have gone for the most part to big business. The result is that small business which is denied materials for normal production must shut down, while big business gets defense contracts to replace normal production.

The pending tax bill instead of drastically increasing the yield from an effective excess-profits tax shifts $500,000,000 from the normal corporation tax yield (by the reversal of credits) and adds it to the estimated yield from excess-profits taxes. At the same time corporations large and small are to have their taxes jacked up without regard to profits made from the defense spending.

For many years the Senate and the taxpayers have been promised a genuine revision of the tax structure and each year the promise is never fulfilled.

With an additional lend-lease appropriation for aid to other countries about to be submitted to Congress which will no doubt equal if not exceed the additional revenues to be raised by the pending bill, it is idle to lull ourselves into the false dream that the present bill is within gunshot of being adequate to meet the fiscal crisis which confronts the Treasury now and in the foreseeable future.

To pile a hodgepodge tax bill upon the existing hodgepodge tax structure impairs the functioning of our economy. One of the essentials necessary to free production for the defense effort is a sound tax structure. Passage of the pending bill with all of its acknowledged injustices and hardships might be accepted if the individual and corporate taxpayers could be assured this was all they would be asked to carry. Such is not the case. They have already been informed that another and bigger tax bill is to be enacted next year. This kind of blunderbuss tax procedure threatens the entire production effort for defense. It intensifies the resentment of all kinds of taxpayers. It will tend to increase disunity instead of foster unity.

It is my firm conviction that the pending bill, which makes an intolerable tax structure infinitely worse, should be rejected and thoroughgoing revision of the tax structure based on the sound principle of ability to pay should be immediately undertaken.

○

Calendar No. 703

77TH CONGRESS
1ST SESSION

H. R. 5417

[Report No. 673]

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IN THE SENATE OF THE UNITED STATES

AUGUST 5 (legislative day, JULY 28), 1941
Read twice and referred to the Committee on Finance

SEPTEMBER 2, 1941
Reported by Mr. GEORGE, with amendments

[Omit the part struck through and insert the part printed in italic]

AN ACT

To provide revenue, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act, divided into titles and sections according to the following Table of Contents, may be cited as the "Revenue Act of 1941":

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TITLE I—INDIVIDUAL AND CORPORATION INCOME TAXES

SEC. 101. SURTAX ON INDIVIDUALS.

Section 12 (b) of the Internal Revenue Code is amended to read as follows:

"(b) RATES OF SURTAX.—There shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual the surtax shown in the following table:

"If the surtax net income is:	The surtax shall be:
Not over $2,000	5% of the surtax net income.
Over $2,000 but not over $4,000	$100, plus 8% of excess over $2,000.
Over $4,000 but not over $6,000	$260, plus 11% of excess over $4,000.
Over $6,000 but not over $8,000	$480, plus 15% of excess over $6,000.
Over $8,000 but not over $10,000	$780, plus 19% of excess over $8,000.
Over $10,000 but not over $12,000	$1,160, plus 22% of excess over $10,000.
Over $12,000 but not over $14,000	$1,600, plus 25% of excess over $12,000.
Over $14,000 but not over $16,000	$2,100, plus 28% of excess over $14,000.
Over $16,000 but not over $18,000	$2,660, plus 31% of excess over $16,000.
Over $18,000 but not over $20,000	$3,280, plus 33% of excess over $18,000.
Over $20,000 but not over $22,000	$3,940, plus 36% of excess over $20,000.
Over $22,000 but not over $26,000	$4,660, plus 39% of excess over $22,000.
Over $26,000 but not over $32,000	$6,220, plus 42% of excess over $26,000.
Over $32,000 but not over $38,000	$8,740, plus 45% of excess over $32,000.
Over $38,000 but not over $44,000	$11,440, plus 48% of excess over $38,000.
Over $44,000 but not over $50,000	$14,320, plus 50% of excess over $44,000.
Over $50,000 but not over $60,000	$17,320, plus 53% of excess over $50,000.
Over $60,000 but not over $70,000	$22,620, plus 55% of excess over $60,000.
Over $70,000 but not over $80,000	$28,120, plus 57% of excess over $70,000.

~~"If the surtax net income is:~~	~~The surtax shall be:~~
~~Over $80,000 but not over $90,000~~	~~$33,820, plus 59% of excess over $80,000.~~
~~Over $90,000 but not over $100,000~~	~~$39,720, plus 61% of excess over $90,000.~~
~~Over $100,000 but not over $150,000.~~	~~$45,820, plus 62% of excess over $100,000.~~
~~Over $150,000 but not over $200,000.~~	~~$76,820, plus 63% of excess over $150,000.~~
~~Over $200,000 but not over $250,000.~~	~~$108,320, plus 64% of excess over $200,000.~~
~~Over $250,000 but not over $300,000.~~	~~$140,320, plus 66% of excess over $250,000.~~
~~Over $300,000 but not over $400,000.~~	~~$173,320, plus 68% of excess over $300,000.~~
~~Over $400,000 but not over $500,000.~~	~~$241,320, plus 70% of excess over $400,000.~~
~~Over $500,000 but not over $750,000.~~	~~$311,320, plus 71% of excess over $500,000.~~
~~Over $750,000 but not over $1,000,000.~~	~~$488,820, plus 72% of excess over $750,000.~~
~~Over $1,000,000 but not over $2,000,000.~~	~~$668,820, plus 73% of excess over $1,000,000.~~
~~Over $2,000,000 but not over $5,000,000.~~	~~$1,398,820, plus 74% of excess over $2,000,000.~~
~~Over $5,000,000.~~	~~$3,618,820, plus 75% of excess over $5,000,000."~~

"If the surtax net income is:	*The surtax shall be:*
Not over $2,000	*6% of the surtax net income.*
Over $2,000 but not over $4,000	*$120, plus 9% of excess over $2,000.*
Over $4,000 but not over $6,000	*$300, plus 13% of excess over $4,000.*
Over $6,000 but not over $8,000	*$560, plus 17% of excess over $6,000.*
Over $8,000 but not over $10,000	*$900, plus 21% of excess over $8,000.*
Over $10,000 but not over $12,000	*$1,320 plus 25% of excess over $10,000.*
Over $12,000 but not over $14,000	*$1,820, plus 29% of excess over $12,000.*
Over $14,000 but not over $16,000	*$2,400, plus 32% of excess over $14,000.*
Over $16,000 but not over $18,000	*$3,040, plus 35% of excess over $16,000.*
Over $18,000 but not over $20,000	*$3,740, plus 38% of excess over $18,000.*
Over $20,000 but not over $22,000	*$4,500, plus 41% of excess over $20,000.*
Over $22,000 but not over $26,000	*$5,320, plus 44% of excess over $22,000.*
Over $26,000 but not over $32,000	*$7,080, plus 47% of excess over $26,000.*
Over $32,000 but not over $38,000	*$9,900, plus 50% of excess over $32,000.*
Over $38,000 but not over $44,000	*$12,900, plus 53% of excess over $38,000.*
Over $44,000 but not over $50,000	*$16,080, plus 55% of excess over $44,000.*

"If the surtax net income is:	*The surtax shall be:*
Over $50,000 but not over $60,000	*$19,380, plus 57% of excess over $50,000.*
Over $60,000 but not over $70,000	*$25,080, plus 59% of excess over $60,000.*
Over $70,000 but not over $80,000	*$30,980, plus 61% of excess over $70,000.*
Over $80,000 but not over $90,000	*$37,080, plus 63% of excess over $80,000.*
Over $90,000 but not over $100,000	*$43,380, plus 64% of excess over $90,000.*
Over $100,000 but not over $150,000.	*$49,780, plus 65% of excess over $100,000.*
Over $150,000 but not over $200,000.	*$82,280, plus 66% of excess over $150,000.*
Over $200,000 but not over $250,000.	*$115,280, plus 67% of excess over $200,000.*
Over $250,000 but not over $300,000.	*$148,780, plus 69% of excess over $250,000.*
Over $300,000 but not over $400,000.	*$183,280, plus 71% of excess over $300,000.*
Over $400,000 but not over $500,000.	*$254,280, plus 72% of excess over $400,000.*
Over $500,000 but not over $750,000.	*$326,280, plus 73% of excess over $500,000.*
Over $750,000 but not over $1,000,000.	*$508,780, plus 74% of excess over $750,000.*
Over $1,000,000 but not over $2,000,000.	*$693,780, plus 75% of excess over $1,000,000.*
Over $2,000,000 but not over $5,000,000.	*$1,443,780, plus 76% of excess over $2,000,000.*
Over $5,000,000.	*$3,723,780, plus 77% of excess over $5,000,000."*

SEC. 102. OPTIONAL TAX ON INDIVIDUALS WITH CERTAIN GROSS INCOME OF $3,000 OR LESS.

(a) OPTIONAL TAX.—The Internal Revenue Code is amended by inserting after section 396 the following new Supplement:

"Supplement T—Individuals With Gross Income From Certain Sources of $3,000 or less

"SEC. 400. IMPOSITION OF TAX.

"In lieu of the tax imposed under sections 11 and 12, an individual may elect, for each taxable year, to pay the tax

shown in the following table if his gross income for such taxable year is $3,000 or less and consists wholly of one or more of the following: Salary, wages, compensation for personal services, dividends, interest, rent, annuities, or royalties:

"If the gross income is over—	But not over—	The tax shall be—	
		Single person (not head of a family)	Head of family or married person
$1	$750	$0	$0
$750	775	1	0
$775	800	2	0
$800	825	3	0
$825	850	5	0
$850	875	7	0
$875	900	9	0
$900	925	11	0
$925	950	14	0
$950	975	16	0
$975	1,000	18	0
$1,000	1,025	20	0
$1,025	1,050	22	0
$1,050	1,075	24	0
$1,075	1,100	26	0
$1,100	1,125	29	0
$1,125	1,150	31	0
$1,150	1,175	33	0
$1,175	1,200	35	0
$1,200	1,225	37	0
$1,225	1,250	39	0
$1,250	1,275	42	0
$1,275	1,300	44	0
$1,300	1,325	46	0
$1,325	1,350	48	0
$1,350	1,375	50	0
$1,375	1,400	52	0
$1,400	1,425	55	0
$1,425	1,450	57	0
$1,450	1,475	59	0
$1,475	1,500	61	0
$1,500	1,525	63	1
$1,525	1,550	65	2
$1,550	1,575	68	3
$1,575	1,600	70	5
$1,600	1,625	72	6

"If the gross income is over—	But not over—	The tax shall be—	
		Single person (not head of a family)	Head of family or married person
$1,625	$1,650	$74	$67
$1,650	1,675	76	69
$1,675	1,700	78	71
$1,700	1,725	80	73
$1,725	1,750	83	75
$1,750	1,775	85	77
$1,775	1,800	87	79
$1,800	1,825	89	82
$1,825	1,850	91	84
$1,850	1,875	93	86
$1,875	1,900	96	88
$1,900	1,925	98	90
$1,925	1,950	100	92
$1,950	1,975	102	95
$1,975	2,000	104	97
$2,000	2,025	106	99
$2,025	2,050	109	101
$2,050	2,075	111	103
$2,075	2,100	113	105
$2,100	2,125	115	108
$2,125	2,150	117	110
$2,150	2,175	119	112
$2,175	2,200	122	114
$2,200	2,225	124	116
$2,225	2,250	126	118
$2,250	2,275	128	120
$2,275	2,300	130	123
$2,300	2,325	132	125
$2,325	2,350	134	127
$2,350	2,375	137	129
$2,375	2,400	139	131
$2,400	2,425	141	133
$2,425	2,450	143	136
$2,450	2,475	145	138
$2,475	2,500	147	140
$2,500	2,525	150	142
$2,525	2,550	152	144
$2,550	2,575	154	146
$2,575	2,600	156	149
$2,600	2,625	158	151
$2,625	2,650	160	153
$2,650	2,675	163	155
$2,675	2,700	165	157
$2,700	2,725	167	159
$2,725	2,750	169	162
$2,750	2,775	172	164
$2,775	2,800	174	166
$2,800	2,825	177	168

"If the gross income is over—	*But not over—*	*The tax shall be—*	
		Single person (not head of a family)	*Head of family or married person*
$2,825	*$2,850*	*$180*	*$110*
$2,850	*2,875*	*183*	*112*
$2,875	*2,900*	*186*	*114*
$2,900	*2,925*	*189*	*117*
$2,925	*2,950*	*191*	*119*
$2,950	*2,975*	*194*	*121*
$2,975	*3,000*	*197*	*123*

In applying the above schedule to determine the tax of a taxpayer with one or more dependents there shall be subtracted from his gross income $400 for each such dependent.

"SEC. 401. RULES FOR APPLICATION OF SECTION 400.

"For the purposes of this Supplement—

"(a) Definitions—

"(1) 'Married person' means a married person living with husband or wife.

"(2) 'Dependent' means a person (other than husband or wife) dependent upon and receiving his chief support from the taxpayer if such dependent person is under eighteen years of age or is incapable of self-support because mentally or physically defective, excluding as a dependent, in the case of a head of a family, one who would be excluded under section 25 (b) (2) (B).

"(b) DETERMINATION OF STATUS.—The determination of whether a person is living with husband or wife, is a head

of a family, or is a dependent, shall be made as of the last day of the taxpayer's taxable year.

"(c) SEPARATE RETURN OF HUSBAND AND WIFE.—If a husband and wife living together file separate returns, each shall be treated as a single person.

"(d) MARRIED PERSONS NOT LIVING WITH HUSBAND OR WIFE.—A married person not a head of a family and not living with husband or wife shall be treated as a single person.

"SEC. 402. MANNER OF ELECTION.

"The election referred to in section 400 shall be considered to have been made if the taxpayer files the return prescribed for this Supplement and such election shall be irrevocable. If the taxpayer for any taxable year has filed a return computing his tax without regard to this Supplement, he may not thereafter elect for such year to compute his tax under this Supplement.

"SEC. 403. CREDITS AGAINST TAX NOT ALLOWED.

"Section 31 (relating to foreign tax credit) and section 32 (relating to credit for taxes withheld at source) shall not apply with respect to the tax imposed by this Supplement.

"SEC. 404. CERTAIN TAXPAYERS NOT ELIGIBLE.

"This Supplement shall not apply to a nonresident alien individual, or an estate or trust,"

(b) CROSS-REFERENCES.—

(1) Section 11 of the Internal Revenue Code is amended by inserting at the end thereof the following: "(For alternative tax if gross income from certain sources is $3,000 or less, see section 400)".

(2) Section 12 of the Internal Revenue Code is amended by inserting at the end thereof the following:

"(g) For alternative tax if gross income from certain sources is $3,000 or less, see section 400."

(c) AMENDMENT TO SECTION 4.—Section 4 of the Internal Revenue Code is amended by inserting at the end thereof the following:

"(k) Shareholders of Personal Service Corporations,—Supplement S.

"(l) Individuals with gross income from certain sources of $3,000 or less,—Supplement T."

SEC. 103. CORPORATION DEFENSE TAX RATES INCORPORATED IN RATE SCHEDULES.

(a) TAX ON CORPORATIONS IN GENERAL.—Section 13 (b) (1) and (2) of the Internal Revenue Code are amended to read as follows:

"(1) GENERAL RULE.—A tax of 24 per centum of the normal-tax net income; or

"(2) ALTERNATIVE TAX (CORPORATIONS WITH NORMAL-TAX NET INCOME SLIGHTLY MORE THAN

$25,000).—A tax of $4,250, plus 37 per centum of the amount of the normal-tax net income in excess of $25,000."

(b) TAX ON SPECIAL CLASSES OF CORPORATIONS.—Section 14 (b) of the Internal Revenue Code is amended to read as follows:

"(b) CORPORATIONS WITH NORMAL-TAX NET INCOMES OF NOT MORE THAN $25,000.—If the normal-tax net income of the corporation is not more than $25,000, and if the corporation does not come within one of the classes specified in subsection (c), (d), or (e) of this section, the tax shall be as follows:

"Upon normal-tax net incomes not in excess of $5,000, 15 per centum.

"$750 upon normal-tax net incomes of $5,000, and upon normal-tax net incomes in excess of $5,000 and not in excess of $20,000, 17 per centum in addition of such excess.

"$3,300 upon normal-tax net incomes of $20,000, and upon normal-tax net incomes in excess of $20,000, 19 per centum in addition of such excess."

(c) FOREIGN CORPORATIONS.—Section 14 (c) of the Internal Revenue Code (relating to tax on resident foreign corporations) is amended by striking out "22½ per centum" and inserting "24 per centum".

(d) SURTAX ON CORPORATIONS IMPROPERLY ACCUMULATING SURPLUS.—The rate schedule of section 102 of the Internal Revenue Code is amended to read as follows:

"27½ per centum of the amount of the undistributed section 102 net income not in excess of $100,000, plus

"38½ per centum of the undistributed section 102 net income in excess of $100,000."

(e) MUTUAL INVESTMENT COMPANIES.—Section 362 (b) of the Internal Revenue Code (relating to tax on mutual investment companies) is amended by striking out "22½ per centum" and inserting "24 per centum".

~~SEC. 102. SURTAX ON CORPORATIONS.~~

~~(a) GENERAL RULE.—The Internal Revenue Code is amended by inserting after section 15 a new section to read as follows:~~

~~"SEC. 16. SURTAX ON CORPORATIONS.~~

SEC. 104. SURTAX ON CORPORATIONS AND TERMINATION OF DEFENSE TAX.

(a) GENERAL RULE.—Section 15 of the Internal Revenue Code (relating to defense tax) is amended to read as follows:

"SEC. 15. SURTAX ON CORPORATIONS.

"(a) CORPORATION SURTAX NET INCOME.—For the purposes of this chapter the term 'corporation surtax net income' means the net income minus the credit for dividends

received provided in section 26 (b), *computed by limiting such credit to 85 per centum of the net income in lieu of 85 per centum of the adjusted net income.*

"(b) IMPOSITION OF TAX.—There shall be levied, collected, and paid for each taxable year upon the corporation surtax net income of every corporation (except a corporation subject to the tax imposed by section 231 (a) or Supplement Q) a surtax as follows:

"Upon corporation surtax net incomes not in excess of $25,000, ~~5 per centum~~ *6 per centum* of the amount thereof;

"Upon corporation surtax net incomes in excess of $25,000, ~~$1,250,~~ ~~plus 6 per centum~~ *$1,500, plus 7 per centum* of the excess over $25,000."

(b) SURTAX ON MUTUAL INVESTMENT COMPANIES.—Supplement Q of the Internal Revenue Code (relating to mutual investment companies) is amended by inserting at the end thereof a new section to read as follows:

"SEC. 363. SURTAX ON MUTUAL INVESTMENT COMPANIES.

"(a) SUPPLEMENT Q SURTAX NET INCOME.—For the purposes of this chapter the term 'Supplement Q surtax net income' means the net income, computed without the net operating loss deduction provided in section 23 (s), minus the dividends paid during the taxable year increased by the consent dividends credit provided in section 28. For the

purposes of this subsection the amount of dividends paid shall be computed in the same manner as provided in subsections (d), (e), (f), (g), (h), and (i) of section 27 for the purpose of the basic surtax credit provided in section 27.

"(b) IMPOSITION OF TAX.—There shall be levied, collected, and paid for each taxable year upon the Supplement Q surtax net income of every mutual investment company a surtax as follows:

"Upon Supplement Q surtax net incomes not in excess of $25,000, ~~5 per centum~~ *6 per centum* of the amount thereof;

"Upon Supplement Q surtax net incomes in excess of $25,000, ~~$1,250, plus 6 per centum~~ *$1,500, plus 7 per centum* of the excess over $25,000."

(c) SURTAX ON BANKS.—Section 104 (b) of the Internal Revenue Code (relating to certain banks and trust companies) is amended to read as follows:

"(b) RATE OF TAX.—Banks shall be subject to tax under section 13 or section 14 (b), and under section ~~16~~ *15*."

(d) SURTAX ON RESIDENT FOREIGN CORPORATIONS.—Section 231 (b) of the Internal Revenue Code (relating to certain foreign corporations) is amended to read as follows:

"(b) RESIDENT CORPORATIONS.—A foreign corporation engaged in trade or business within the United States

or having an office or place of business therein shall be taxable as provided in section 14 (c) (1) and section ~~16~~ *15*."

(e) SURTAX ON CORPORATIONS ENTITLED TO THE BENEFITS OF SECTION 251.—Section 251 (c) (1) of the Internal Revenue Code (relating to the tax on corporations entitled to the benefits of section 251) is amended to read as follows:

"(1) CORPORATION TAX.—A domestic corporation entitled to the benefits of this section shall be subject to tax under section 13 or section 14 (b), and under section ~~16~~ *15*."

(f) SURTAX ON CHINA TRADE ACT CORPORATIONS.—

(1) SURTAX.—Section 261 (a) of the Internal Revenue Code (relating to the tax on China Trade Act corporations) is amended to read as follows:

"(a) CORPORATION TAX.—A corporation organized under the China Trade Act, 1922, 42 Stat. 849 (U. S. C., 1934 ed., title 15, chap. 4), shall be subject to tax under section 13 or section 14 (b), and under section ~~16~~ *15*."

(2) CREDIT OF CHINA TRADE ACT CORPORATIONS.—Section 262 (a) of the Internal Revenue Code (relating to credit against net income of China Trade Act corporations) is amended by striking out "sections 13, 14, and 600" and inserting in lieu thereof "sections 13, 14, ~~16~~ *15*, and 600";

and by striking out "section 13 or 14" wherever occurring therein and inserting in lieu thereof "section 13, 14, or ~~16~~ *15*".

~~SEC. 103. INCOME DEFENSE TAX MADE PERMANENT.~~

~~(a) The heading of section 15 of the Internal Revenue Code is amended to read as follows:~~

~~"SEC. 15. DEFENSE TAX."~~

~~(b) The first sentence of section 15 of the Internal Revenue Code is amended to read as follows:~~

~~"In the case of any taxpayer, the amount of tax under this chapter for any taxable year beginning after December 31, 1940, shall be the tax computed without regard to this section, increased by 10 per centum; except that in the case of a corporation the increase shall be limited to 10 per centum of the tax computed without regard to sections 16 and 363 and without regard to the amendments made by section 101 (a), (b), and (c) of the Second Revenue Act of 1940."~~

SEC. ~~104~~ *105*. TAX ON NONRESIDENT ALIEN INDIVIDUALS.

(a) TAX IN GENERAL.—Section 211 (a) (1) (A) of the Internal Revenue Code (relating to tax on nonresident alien individuals not engaged in trade or business within the United States and not having an office or place of business therein) is amended by striking out "15 per centum" and inserting in lieu thereof "~~25~~ *27½* per centum".

(b) AGGREGATE RECEIPTS MORE THAN ~~$23,800~~ *$23,000*.—Section 211 (a) (2) of the Internal Revenue Code is amended to read as follows:

"(2) AGGREGATE MORE THAN ~~$23,800~~ *$23,000*.—The tax imposed by paragraph (1) shall not apply to any individual if the aggregate amount received during the taxable year from the sources therein specified is more than ~~$23,800~~ *$23,000*."

(c) TAX WHERE GROSS INCOME OF MORE THAN ~~$23,800~~ *$23,000*.—Section 211 (c) of the Internal Revenue Code (relating to tax on certain nonresident alien individuals) is amended by striking out "$24,000" wherever occurring therein and inserting in lieu thereof "~~$23,800~~ *$23,000*"; and by striking out "15 per centum" and inserting in lieu thereof "~~25~~ *27½* per centum".

SEC. ~~105~~ *106*. TAX ON FOREIGN CORPORATIONS.

Section 231 (a) of the Internal Revenue Code (relating to tax on nonresident foreign corporations) is amended by striking out "15 per centum" and inserting in lieu thereof "~~25~~ *27½* per centum".

SEC. ~~106~~ *107*. WITHHOLDING OF TAX AT SOURCE.

(a) Sections 143 (a) and (b) and 144 of the Internal Revenue Code are amended by striking out "15 per centum" wherever occurring therein and inserting in lieu thereof "27½ per centum".

(b) Section 143 (h) of the Internal Revenue Code is repealed.

(c) Subsections (a) and (b) of this section shall apply only with respect to the period beginning with the tenth day after the date of the enactment of this Act.

SEC. ~~107~~ *108.* TREATY OBLIGATIONS.

No amendment made by this title shall apply in any case where its application would be contrary to any treaty obligation of the United States.

SEC. ~~108~~ *109.* REDUCTION IN PURSUANCE OF TREATIES OF RATES OF TAX AND WITHHOLDING ON NON-RESIDENT ALIEN INDIVIDUALS RESIDENT IN, AND CORPORATIONS ORGANIZED UNDER LAWS OF, WESTERN HEMISPHERE COUNTRIES.

(a) Section 143 (a) (1) (relating to withholding of tax on tax-free covenant bonds) ; section 143 (b) (relating to withholding of tax on dividends, rents, etc.) ; section 144 (relating to payment of corporation income tax at source) ; section 211 (a) (1) (relating to tax on nonresident alien individuals) ; and section 231 (a) (1) (relating to tax on nonresident foreign corporations) of the Internal Revenue Code are amended by striking out "a contiguous country" and inserting in lieu thereof "any country in North, Central, or South America, or in the West Indies, or of Newfoundland".

(b) Section 211 (a) (3) of the Internal Revenue Code is amended to read as follows:

"(3) RESIDENTS OF CERTAIN COUNTRIES.—The provisions of paragraph (2) shall not apply to a resident of any country in North, Central, or South America, or in the West Indies, or of Newfoundland, so long as there is in effect with such country a treaty which provides otherwise."

(c) Section 211 (c) (4) of the Internal Revenue Code is amended to read as follows:

"(4) This subsection shall not apply to a resident of any country in North, Central, or South America, or in the West Indies, or of Newfoundland, so long as there is in effect with such country a treaty which provides otherwise."

~~SEC. 109. DEFENSE TAX ON PERSONAL HOLDING COMPANIES AND TRANSFERS TO AVOID INCOME TAX MADE PERMANENT.~~

~~(a) PERSONAL HOLDING COMPANIES.—Section 500 (b) of the Internal Revenue Code is amended by striking out "and before January 1, 1945," and by striking out in the heading "FOR FIVE YEARS".~~

~~(b) TRANSFERS TO AVOID INCOME TAX.—Section 1250 (b) of the Internal Revenue Code is amended by striking~~

~~out "and before July 1, 1945" and by striking out in the heading "FOR FIVE YEARS".~~

SEC. 110. DEFENSE TAX RATES ON PERSONAL HOLDING COMPANIES AND TRANSFERS TO AVOID INCOME TAX INCORPORATED IN RATE SCHEDULES.

(a) PERSONAL HOLDING COMPANIES.—Section 500 of the Internal Revenue Code (relating to tax on personal holding companies) is amended as follows:

(1) By striking out the heading "(a) GENERAL RULE.—";

(2) By amending the rate schedule to read as follows:

"(1) 71½ per centum of the amount thereof not in excess of $2,000; plus

"(2) 82½ per centum of the amount thereof in excess of "$2,000."; and

(3) By repealing subsection (b) (relating to defense tax for five years).

(b) TRANSFERS TO AVOID INCOME TAX.—Section 1250 of the Internal Revenue Code (relating to tax on transfers to avoid income tax) is amended as follows:

(1) By striking out the heading "(a) GENERAL RULE.—";

(2) By striking out "25 per centum" and inserting "27½ per centum"; and

(3) By repealing subsection (b) (relating to defense tax for five years).

SEC. 111. PERSONAL EXEMPTION.

(a) Section 25 (b) (1) of the Internal Revenue Code is amended to read as follows:

"(1) PERSONAL EXEMPTION.—In the case of a single person or a married person not living with husband or wife, a personal exemption of $750; or in the case of the head of a family or a married person living with husband or wife, a personal exemption of $1,500. A husband and wife living together shall receive but one personal exemption. The amount of such personal exemption shall be $1,500. If such husband and wife make separate returns, the personal exemption may be taken by either or divided between them, except that if one spouse makes a return under Supplement T, the personal exemption of the other spouse shall be $750."

(b) Section 214 of the Internal Revenue Code (relating to personal exemption of nonresident alien individuals) is amended by striking out "$800" and inserting in lieu thereof "$750".

(c) Section 251 (f) of the Internal Revenue Code (relating to personal exemption of citizens entitled to benefits of section 251) is amended by striking out "$800" and inserting in lieu thereof "$750".

SEC. 112. RETURNS OF INCOME TAX.

(a) INDIVIDUAL RETURNS.—Section 51 (a) of the Internal Revenue Code is amended to read as follows:

"(a) REQUIREMENT.—The following individuals shall each make under oath a return stating specifically the items of his gross income and the deductions and credits allowed under this chapter and such other information for the purpose of carrying out the provisions of this chapter as the Commissioner with the approval of the Secretary may by regulations prescribe—

"(1) Every individual who is single or who is married but not living with husband or wife, if having a gross income for the taxable year of $750 or over.

"(2) Every individual who is married and living with husband or wife, if no joint return is made under subsection (b) and if—

"(A) Such individual has for the taxable year a gross income of $1,500 or over, and the other spouse has no gross income; or

"(B) Such individual and his spouse each has for the taxable year a gross income and the aggregate gross income is $1,500 or over."

(b) FIDUCIARY RETURNS.—Section 142 (a) of the Internal Revenue Code is amended to read as follows:

"(a) REQUIREMENT OF RETURN.—Every fiduciary

(except a receiver appointed by authority of law in possession of part only of the property of an individual) shall make under oath a return for any of the following individuals, estates, or trusts for which he acts, stating specifically the items of gross income thereof and the deductions and credits allowed under this chapter and such other information for the purpose of carrying out the provisions of this chapter as the Commissioner with the approval of the Secretary may by regulations prescribe—

"(1) Every individual having a gross income for the taxable year of $750 or over, if single, or if married and not living with husband or wife;

"(2) Every individual having a gross income for the taxable year of $1,500 or over, if married and living with husband or wife;

"(3) Every estate the gross income of which for the taxable year is $750 or over;

"(4) Every trust the net income of which for the taxable year is $100 or over, or the gross income of which for the taxable year is $750 or over, regardless of the amount of the net income; and

"(5) Every estate or trust of which any beneficiary is a nonresident alien."

(c) INFORMATION RETURNS.—Section 147 (a) of the

Internal Revenue Code (relating to information at the source) is amended by striking out "$800" wherever occurring therein and inserting in lieu thereof "$750".

SEC. ~~110~~ *113.* CREDIT FOR DEPENDENTS.

Section 25 (b) (2) of the Internal Revenue Code (relating to credit for dependents) is amended to read as follows:

"(2) CREDIT FOR DEPENDENTS.—

"(A) Allowance in General.—$400 for each person (other than husband or wife) dependent upon and receiving his chief support from the taxpayer if such dependent person is under eighteen years of age or is incapable of self-support because mentally or physically defective.

"(B) Exception for Certain Heads of Families.—If the taxpayer would not occupy the status of head of a family except by reason of there being one or more dependents for whom he would be entitled to credit under subparagraph (A), the credit under such subparagraph shall be disallowed with respect to one of such dependents."

SEC. ~~111~~ *114.* NONINTEREST-BEARING OBLIGATIONS ISSUED AT DISCOUNT.

Section 42 of the Internal Revenue Code (relating to period in which items of gross income are included) is

amended by inserting before the first sentence thereof "(a) GENERAL RULE.—", and by inserting at the end of such section a new subsection to read as follows:

"(b) NONINTEREST-BEARING OBLIGATIONS ISSUED AT DISCOUNT.—If, in the case of a taxpayer owning any noninterest-bearing obligation issued at a discount and redeemable for fixed amounts increasing at stated intervals, the increase in the redemption price of such obligation occurring in such taxable year does not (under the method of accounting used in computing his net income) constitute income to him in such year, such taxpayer may, at his election made in his return for any taxable year beginning after December 31, 1940, treat such increase as income received in such taxable year. If any such election is made with respect to any such obligation, it shall apply also to all such obligations owned by the taxpayer at the beginning of the first taxable year to which it applies and to all such obligations thereafter acquired by him and shall be binding for all subsequent taxable years, unless upon application by the taxpayer the Commissioner permits him, subject to such conditions as the Commissioner deems necessary, to change to a different method. In the case of any such obligations owned by the taxpayer at the beginning of the first taxable year to which his election applies, the increase in the redemption price of such obligations occurring between the date of acquisition and the first day of

such taxable year shall also be treated as income received in such taxable year."

SEC. 115. SHORT-TERM OBLIGATIONS ISSUED ON A DISCOUNT BASIS.

(a) DISCOUNT ACCRUED AT MATURITY.—Section 42 of the Internal Revenue Code (relating to period in which items of gross income are included) is amended by inserting at the end thereof the following new subsection:

"(c) SHORT-TERM OBLIGATIONS ISSUED ON DISCOUNT BASIS.—In the case of any obligation of the United States or any of its possessions, or of a State or Territory, or any political subdivision thereof, or of the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding one year from the date of issue, the amount of discount at which such obligation is originally sold shall not be considered to accrue until the date on which such obligation is paid at maturity, sold, or otherwise disposed of."

(b) CAPITAL GAIN RULE NOT APPLICABLE.—Section 117 (a) (1) of the Internal Revenue Code (relating to definition of capital assets) is amended by striking out the semicolon at the end thereof and inserting in lieu thereof the following: ", or an obligation of the United States or any of its possessions, or of a State or Territory, or any political subdivision thereof, or of the District of Colum-

bia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding one year from the date of issue;".

(c) EFFECTIVE DATE OF AMENDMENTS.—The amendments made by this section shall be applicable with respect to taxable years ending after February 28, 1941.

SEC. ~~112~~ *116.* INFORMATION RETURNS WITH RESPECT TO FEDERAL OBLIGATIONS.

(a) Section 147 (d) of the Internal Revenue Code (exempting interest on obligations of the United States from information requirement) is repealed.

(b) Section 147 (b) of the Internal Revenue Code is amended by striking out "and (2)" and inserting in lieu thereof "(2) in the case of payments of interest upon obligations of the United States or any agency or instrumentality thereof, and (3)".

(c) Subsections (a) and (b) of this section shall take effect upon the day after the date of the enactment of this Act.

SEC. 117. ALIMONY AND SEPARATE MAINTENANCE PAYMENTS.

(a) AMOUNT INCLUDIBLE IN GROSS INCOME.—Section 22 (relating to definition of gross income) of the Internal Revenue Code is amended by inserting at the end thereof the following new subsection:

"(k) Alimony, etc., income.—In the case of an individual

who is divorced or legally separated from a spouse under a decree of divorce or of separate maintenance, periodic payments received (subsequent to such decree) in discharge of, or attributable to property transferred in discharge of, a legal obligation imposed upon or incurred by such individual's spouse or former spouse under such decree or under a written instrument incident to such divorce or separation shall be includible in the gross income of such individual, and such amounts received as are attributable to property so transferred shall not be includible in the gross income of such other spouse or former spouse. This subsection shall not apply to that part of any such periodic payment which, by the terms of the decree or written instrument, is specifically designated as a sum payable for the support of minor children of the spouses. Installment payments discharging a part of an obligation the principal sum of which is, in terms of money or property, specified in the decree or instrument, shall not be considered periodic payments for the purposes of this subsection. (For amount includible under this subsection in case the property is held in trust, see section 171.)"

(b) DEDUCTION FOR AMOUNTS PAID.—Section 23 of the Internal Revenue Code (relating to deductions from gross income) is amended by inserting at the end thereof the following new subsection:

"(u) Alimony, etc., payments.—In the case of an indi-

vidual, amounts includible under section 22 (k) in the gross income of a spouse (or former spouse) of such individual, payment of which is made within the individual's taxable year. If the amount of any such payment is, under section 22 (k) or section 171, excluded from such individual's gross income, no deduction shall be allowed with respect to such payment under this subsection."

(c) INCOME FROM TRUSTS.—*Supplement E of the Internal Revenue Code is amended by inserting at the end thereof the following new section:*

"SEC. 171. TRUST INCOME IN CASE OF DIVORCE, ETC.

"*There shall be included in the gross income of an individual who is divorced or legally separated under a decree of divorce or of separate maintenance the amount of the income of any trust such individual is entitled to receive which, except for the provisions of this section, would be includible in the gross income of such individual's spouse or former spouse, and such amount shall not, despite section 166, section 167, or any other provision of this chapter, be includible in the gross income of such spouse or former spouse. This section shall not apply to that part of any such periodic payment which, by the terms of the decree or trust instrument, is specifically designated as a sum payable for the support of minor children of the spouses.*"

(d) Credit for dependents.—Section 25 (b) (2) of the Internal Revenue Code (relating to credit for dependents) is amended by inserting at the end thereof the following: "A payment to an individual's spouse or former spouse which is includible under section 22 (k) or section 171 in the gross income of such spouse or former spouse shall not be considered a payment by such individual for the support of minor children of such persons."

(e) EFFECTIVE DATE OF AMENDMENTS.—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1941.

SEC. 118. EXTENSION OF TIME OF ORDERS OF SECURITIES AND EXCHANGE COMMISSION.

Section 373 (a) of the Internal Revenue Code (relating to the definition of orders of the Securities and Exchange Commission with respect to which Supplement R applies) is amended to read as follows:

"(a) The term 'order of the Securities and Exchange Commission' means an order (1) issued after May 28, 1938, and prior to January 1, 1943, by the Securities and Exchange Commission to effectuate the provisions of section 11 (b) of the Public Utility Holding Company Act of 1935, 49 Stat. 820 (U. S. C., Supp. III, Title 15, section 79 (b)), or (2) issued by the Commission subsequent to December 31,

1942, in which it is expressly stated that an order of the character specified in clause (1) is amended or supplemented, and (3) which has become final in accordance with law."

SEC. 119. COMMUNITY INCOME.

The Internal Revenue Code is amended by inserting after section 28 the following new section:

"SEC. 29. COMMUNITY INCOME.

"For the purpose of determining the income tax liability of any individual:

"(a) Income earned by each spouse (whether or not treated as community property under the State law) shall be considered as the income of the earner thereof.

"(b) Income derived from property of the marital community (except such property as constitutes either income derived from the separate property of either spouse or property acquired therewith) shall be considered as the income of the spouse who has the management and control thereof under the law of the jurisdiction in which the marital community exists.

"(c) In case the spouses elect to file separate returns, the spouse required under this section to treat such income as his individual income shall alone be entitled to the deductions and credits allowed under this chapter which are properly allocable to such income."

SEC. ~~113~~ *120.* TAXABLE YEARS TO WHICH AMENDMENTS APPLICABLE.

The amendments made by this title (except sections ~~106 and 112~~ *107, 115, 116, and 117*) shall be applicable only with respect to taxable years beginning after December 31, 1940.

TITLE II—EXCESS PROFITS TAX

SEC. 201. EXCESS PROFITS TAX RATES AND CREDITS.

(a) RATES.—Section 710 (a) of the Internal Revenue Code is amended to read as follows:

"(a) IMPOSITION.—

"(1) GENERAL RULE.—There shall be levied, collected, and paid, for each taxable year, on the adjusted excess profits net income, as defined in subsection (b), of every corporation (except a corporation exempt under section 727) the tax shown in the following table:

"If the adjusted excess profits net income is:	The tax shall be:
Not over $20,000	35% of the adjusted excess profits net income.
Over $20,000, but not over $50,000	$7,000, plus 40% of excess over $20,000.
Over $50,000, but not over $100,000	$19,000, plus 45% of excess over $50,000.
Over $100,000, but not over $250,000.	$41,500, plus 50% of excess over $100,000.
Over $250,000, but not over $500,000.	$116,500, plus 55% of excess over $250,000.
Over $500,000	$254,000, plus 60% of excess over $500,000.

~~"(2) SPECIAL RULE IN CERTAIN CASES WHERE INVESTED CAPITAL CREDIT IS USED.—In the case of a~~

taxpayer entitled to have its excess profits credit computed under either section 713 (income credit) or section 714 (invested capital credit), if the use of the credit under section 714 is more advantageous to the taxpayer, the tax imposed by this section shall be the sum of—

"(A) an amount determined under paragraph (1) of this subsection with the use of the credit provided in section 714, plus—

"(B) 10 per centum of the amount, if any, by which—

"(i) the adjusted excess profits net income computed with the use of the credit under section 713 and with the excess profits credit carryover which would be available for the taxable year if the excess profits credit applicable to each of the preceding taxable years for which tax is imposed by this subchapter had been the excess profits credit computed under section 713, exceeds

"(ii) the adjusted excess profits net income computed with the use of the credit under section 714.

"(3) LIMITATION ON APPLICATION OF SPECIAL RULE.—If the tax under paragraph (2) is greater than

~~the amount determined, with the use of the credit provided in section 713, under paragraph (1) of this subsection, the tax shall be the amount so determined under paragraph (1).~~

"~~(1)~~ *(2)* APPLICATION OF RATES IN CASE OF CERTAIN EXCHANGES.—If the taxpayer's highest bracket amount for the taxable year computed under section 752 (relating to certain exchanges) is less than $500,000, then in the application of the table in paragraph (1) of this subsection to such taxpayer, in lieu of each amount, other than the percentages, specified in such table, there shall be substituted an amount which bears the same ratio to the amount so specified as the highest bracket amount so computed bears to $500,000."

(b) EXCESS PROFITS CREDIT—BASED ON INVESTED CAPITAL.—Section 714 of the Internal Revenue Code, as amended, is amended to read as follows:

"SEC. 714. EXCESS PROFITS CREDIT—BASED ON INVESTED CAPITAL.

"The excess profits credit, for any taxable year, computed under this section, shall be the amount shown in the following table:

"If the invested capital for the taxable year, determined under section 715, is:	**The credit shall be:**
Not over $5,000,000	8% of the invested capital.
Over $5,000,000	$400,000, plus 7% of the excess over $5,000,000."

SEC. 202. DISCLAIMER OF CREDIT.

(a) Section 712 (c) of the Internal Revenue Code (relating to disclaimers of excess-profits credit) is amended to read as follows:

"(c) EFFECT OF DISCLAIMER OF CREDIT.—If the taxpayer states in its return for the taxable year under this subchapter that it disclaims the use of the credit computed under section 714, such credit shall not, for the purposes of the internal revenue laws, be applicable to the computation of the tax under this subchapter for such taxable year."

(b) The last sentence of section 729 (b) (1) is amended to read as follows: "If the taxpayer states in such return that it disclaims the use of the credit computed under section 714 in the computation of the tax under this subchapter for the taxable year, the computation and information based on such credit may be omitted from the return."

(c) Section 741 (b) of the Internal Revenue Code (relating to disclaimers of excess-profits credit) is amended to read as follows:

"(b) EFFECT OF DISCLAIMER OF CREDIT.—If the taxpayer states in its return for the taxable year under this subchapter that it disclaims the use of the credit computed under section 714, such credit shall not, for the purposes of the internal revenue laws, be applicable to the computation of the tax under this subchapter for such taxable year."

~~SEC. 203. CASES IN WHICH NO RETURN REQUIRED.~~

~~Section 729 (b) (2) of the Internal Revenue Code is amended to read as follows:~~

~~"(2) NO RETURN REQUIRED.—Notwithstanding subsection (a), no return under section 52 (a) shall be required to be filed under this subchapter:~~

~~"(A) By any taxpayer entitled to have its excess-profits credit computed under either section 713 or section 714 for any taxable year for which its excess-profits net income, computed with the adjustments provided in section 711 (a) (1) and placed on an annual basis as provided in section 711 (a) (3), is not greater than $5,000; or~~

~~"(B) By any taxpayer not entitled to have its excess-profits credit computed under section 713 for any taxable year for which its excess-profits net income, computed with the adjustments provided in section 711 (a) (2) and placed on an annual basis as provided in section 711 (a) (3), is not greater than $5,000."~~

SEC. ~~204~~ *202.* DEDUCTION OF EXCESS-PROFITS TAX.

(a) AMENDMENT OF SECTION 23 (c).—Section 23 (c) of the Internal Revenue Code (relating to the deduction of taxes in computing net income) is amended to read as follows:

"(c) TAXES GENERALLY.—

"(1) ALLOWANCE IN GENERAL.—Taxes paid or accrued within the taxable year, except—

"(A) Federal income taxes;

"(B) war-profits and excess-profits taxes imposed by Title II of the Revenue Act of 1917, Title III of the Revenue Act of 1918, Title III of the Revenue Act of 1921, section 216 of the National Industrial Recovery Act, or section 702 of the Revenue Act of 1934, or by any such provisions as amended or supplemented;

"(C) income, war-profits, and excess-profits taxes imposed by the authority of any foreign country or possession of the United States; but this deduction shall be allowed in the case of a taxpayer who does not signify in his return his desire to have to any extent the benefits of section 131 (relating to credit for taxes of foreign countries and possessions of the United States);

"(D) estate, inheritance, legacy, succession, and gift taxes; and

"(E) taxes assessed against local benefits of a kind tending to increase the value of the property assessed; but this paragraph shall not exclude the allowance as a deduction of so much of such taxes

as is properly allocable to maintenance or interest charges.

"(2) EXCESS-PROFITS TAX UNDER CHAPTER 2E—SPECIAL RULES.—For the purposes of this subsection, in the case of the excess-profits tax imposed by Subchapter E of Chapter 2—

"(A) The deduction shall be limited to the tax imposed for the taxable year, but any portion of such tax paid after the taxable year shall be considered as having been paid within the taxable year;

"(B) No reduction in such tax shall be made by reason of the credit for income, war-profits, or excess-profits taxes paid to any foreign country or possession of the United States;

"(C) Such tax shall be computed without regard to the adjustments provided in section 734; and

"(D) Such tax, in the case of a consolidated return under section 730, shall be allocated to the members of the affiliated group under regulations prescribed by the Commissioner, with the approval of the Secretary."

(b) AMENDMENT OF SECTION 102 (d).—Section 102 (d) (1) (A) of the Internal Revenue Code (relating to the deduction of taxes in computing section 102 net income) is amended to read as follows:

"(A) Taxes.—Federal income, war-profits, and excess-profits taxes (other than the tax imposed by Subchapter E of Chapter 2 for a taxable year beginning after December 31, 1940) paid or accrued during the taxable year, to the extent not allowed as a deduction by section 23, but not including the tax imposed by this section or a corresponding section of a prior income-tax law."

(c) COMPUTATION OF EXCESS-PROFITS NET INCOME.—

(1) TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1940.—

(A) Section 711 (a) (1) (A) (relating to adjustment for income taxes in computing excess-profits net income under income credit) is amended to read as follows:

"(A) Income Taxes.—In computing such normal-tax net income the deduction for the tax imposed by this subchapter shall not be allowed;".

(B) Section 711 (a) (2) (C) (relating to adjustment for income taxes in computing excess-profits net income under invested capital credit) is amended to read as follows:

"(C) Income Taxes.—In computing such nor-

mal-tax net income the deduction for the tax imposed by this subchapter shall not be allowed;".

(2) TAXABLE YEARS IN THE BASE PERIOD.—Section 711 (b) (1) (A) (relating to adjustment for income taxes for taxable years in the base period) is repealed.

(d) COMPUTATION OF CHARITABLE, ETC., DEDUCTIONS.—

(1) Section 711 (a) (1) of the Internal Revenue Code is amended by inserting at the end thereof the following new subparagraph:

"(G) Computation of Charitable, Etc., Deductions.—In determining any deduction the amount of which is limited to a percentage of the taxpayer's net income (or net income from the property), such net income (or net income from the property) shall be computed without regard to the deduction on account of the tax imposed by this subchapter."

(2) Section 711 (a) (2) of the Internal Revenue Code is amended by adding at the end thereof the following new subparagraph:

"(I) Computation of Charitable, Etc., Deductions.—In determining any deduction the amount of which is limited to a percentage of the taxpayer's

net income (or net income from the property), such net income (or net income from the property) shall be computed without regard to the deduction on account of the tax imposed by this subchapter."

(e) EXCESS-PROFITS CREDIT CARRY-OVER.—Section 710 (c) (1) (defining the unused excess-profits credit) is amended by adding at the end thereof a new sentence to read as follows: "For such purpose the excess-profits credit and the excess-profits net income for any taxable year beginning in 1940 shall be computed under the law applicable to taxable years beginning in 1941.".

(f) EQUITY INVESTED CAPITAL.—Section 718 (c) (3) (relating to the computation of earnings and profits for invested capital purposes) is amended by adding after the word "subchapter" the words "or Chapter 1".

(g) ADJUSTMENT OF ABNORMAL BASE PERIOD NET INCOME.—Section 722 (c) (placing a limit on the amount of relief afforded under section 722) is amended by adding at the end thereof a new sentence to read as follows: "For the purposes of this subsection and subsection (d) the taxpayer's normal-tax net income shall be computed without deduction of the tax imposed by this subchapter.".

(h) NONDEDUCTIBILITY OF EXCESS PROFITS TAX IN COMPUTATION OF DECLARED VALUE EXCESS PROFITS TAX.—Section 602 of the Internal Revenue Code is amended

by striking out "computed without the deduction of the tax imposed by section 600" and inserting in lieu thereof "computed without the deduction of the tax imposed by section 600 or the tax imposed by Subchapter E of Chapter 2.

~~(i) ADJUSTED DECLARED VALUE.—~~

~~(1) Section 1202 (b) (1) (C) of the Internal Revenue Code is amended to read as follows:~~

~~"(C) its net income, computed without the deduction of the tax imposed by Subchapter E of Chapter 2,".~~

~~(2) Section 1202 (b) (1) (iii) is amended to read as follows:~~

~~"(iii) the excess of the deductions allowable for income tax purposes (not including the deduction for the tax imposed by Subchapter E of Chapter 2) over its gross income."~~

SEC. ~~205~~ *203.* NEW CAPITAL.

Section 718 (a) of the Internal Revenue Code is amended by striking out "and" at the end of paragraph (4); by striking out the period at the end of paragraph (5) and inserting in lieu thereof a semicolon and the word "and"; and by inserting at the end thereof the following:

"(6) NEW CAPITAL.—An amount equal to 25 per centum of the new capital for such day. The term 'new capital' for any day means so much of the amounts

of money or property includible for such day under paragraphs (1) and (2) as was previously paid in during a taxable year beginning after December 31, 1940, and so much of the distributions in stock includible for such day under paragraph (3) as was previously made during a taxable year beginning after December 31, 1940, subject to the following limitations:

"(A) There shall not be included money or property paid in by a corporation in an exchange to which section 112 (b) (3), (4), or (5), or so much of section 112 (c), (d), or (e) as refers to section 112 (b) (3), (4), or (5) is applicable *(or would be applicable except for section 371 (g))*, or would have been applicable if the term 'control' had been defined in section 112 (h) to mean the ownership of stock possessing more than 50 per centum of the total combined voting power of all classes of stock entitled to vote or more than 50 per centum of the total value of shares of all classes of stock.

"(B) There shall not be included money or property paid in to the taxpayer by a transferor corporation if immediately after such transaction the transferor and the taxpayer are members of the same controlled group. As used in this subparagraph and

subparagraph (C), a controlled group means one or more chains of corporations connected through stock ownership with a common parent corporation if (i) more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock, of each of the corporations (except the common parent corporation) is owned directly by one or more of the other corporations, and (ii) the common parent corporation owns directly more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock, of at least one of the other corporations.

"(C) There shall not be included a distribution in stock described in paragraph (3) made to another corporation, if immediately after the distribution the taxpayer and the distributee are members of the same controlled group.

"(D) Increase in Inadmissible Assets.—The new capital for any day of the taxable year, computed without the application of subparagraph (E), shall be reduced by the excess, if any, of the amount computed under section 720 (b) with respect to inad-

missible assets held on such day, over the amount computed under section 720 (b) with respect to inadmissible assets held on the first day of the taxpayer's first taxable year beginning after December 31, 1940. For the purposes of this subparagraph, in determining whether obligations which are described in section 22 (b) (4) any part of the interest from which is excludible from gross income or allowable as a credit against net income are to be treated as admissible or inadmissible assets, such obligations shall be treated in the same manner as they are treated for the taxable year for which tax under this subchapter is being computed.

"(E) Maximum New Capital Allowable.—The new capital for any day of the taxable year shall not be more than the amount, if any, by which—

"(i) the sum of the equity invested capital (computed without regard to this paragraph) and the borrowed capital (as defined in section 719 (a)) of the taxpayer as of such day, reduced by the amount of money or property paid in which is excluded by reason of the limitation of subparagraph (A) or (B) of this paragraph, exceeds

"(ii) the sum of such equity invested capital and borrowed capital as of the beginning of the first day of such taxpayer's first taxable year beginning after December 31, 1940, reduced by the amount, if any, by which the accumulated earnings and profits as of such first day of such first taxable year exceed the accumulated earnings and profits (computed without regard to distributions made in taxable years beginning after December 31, 1940) as of the beginning of the first day of the taxable year for which the tax under this subchapter is being computed."

~~SEC. 206. CORPORATIONS ENGAGED IN MINING STRATEGIC METALS.~~

~~Section 731 of the Internal Revenue Code (exempting from excess profits tax income derived from mining certain metals) shall not apply with respect to any taxable year beginning after December 31, 1940.~~

SEC. ~~207~~ *204.* TAXABLE YEARS TO WHICH AMENDMENTS APPLICABLE.

The amendments made by this title shall be applicable only with respect to taxable years beginning after December 31, 1940.

TITLE III—CAPITAL STOCK TAX AND DECLARED VALUE EXCESS-PROFITS TAX

SEC. 301. CAPITAL STOCK TAX.

(a) INCREASE IN RATE OF TAX.—Section 1200 (a) and (b) of the Internal Revenue Code (relating to rate of capital stock tax) is amended by striking out "$1" and inserting in lieu thereof "$1.25" *and by striking out the word "adjusted" wherever occurring therein.*

(b) DEFENSE TAX RATE.—Section 1200 (c) of the Internal Revenue Code is repealed.

(c) ANNUAL DECLARATION OF VALUE.—Section 1202 of the Internal Revenue Code (relating to declaration of value) is amended to read as follows:

"SEC. 1202. DECLARED VALUE.

"(a) DECLARATION OF VALUE.—The declared value shall be the value as declared by the corporation in its return for the year (which declaration of value cannot be amended). The value declared by the corporation in its return shall be as of the close of its last income tax taxable year ending with or prior to the close of the capital stock tax taxable year.

"(b) CREDIT FOR CHINA TRADE ACT CORPORATIONS.—For the purpose of the tax imposed by section 1200 there shall be allowed in the case of a corporation organized under the China Trade Act, 1922, 42 Stat. 849 (U. S. C., Title 15, c. 4), as a credit against the adjusted

declared value of its capital stock, an amount equal to the proportion of such adjusted declared value which the par value of the shares of stock of the corporation, owned on the last day of the taxable year by (1) persons resident in China, the United States, or possessions of the United States, and (2) individual citizens of the United States or China wherever resident, bears to the par value of the whole number of shares of stock of the corporation outstanding on such date. For the purposes of this subsection shares of stock of a corporation shall be considered to be owned by the person in whom the equitable right to the income from such shares is in good faith vested; and as used in this subsection the term 'China' shall have the same meaning as when used in the China Trade Act, 1922."

(d) RETURNS.—Section 1203 (a) (2) of the Internal Revenue Code (relating to extensions of time for filing capital-stock tax returns) is amended by inserting at the end thereof the following: "With respect to the year ending June 30, 1941, the extension may be for not more than 90 days.".

(e) PRIOR RETURNS EFFECTIVE.—If a return is filed in accordance with section 1203 of the Internal Revenue Code with respect to the year ending June 30, 1941, on the basis of a three-year declaration of value, the value declared on such return shall constitute the declared value for the purposes of section 1202 of the Internal Revenue Code, as

amended by this section, for such year ending June 30, 1941, unless a different value is declared on another return filed within the time prescribed by law for filing such return.

~~(c)~~ *(f)* EFFECTIVE DATE.—~~Subsections (a) and (b)~~ *This section* shall be effective only with respect to the year ending June 30, 1941, and succeeding years.

~~SEC. 302. DECLARED VALUE EXCESS PROFITS TAX—DEFENSE TAX MADE PERMANENT.~~

~~Section 600 (b) of the Internal Revenue Code is amended to read as follows:~~

~~"(b) DEFENSE TAX.—In the case of any taxpayer, the amount of tax payable under this section for any income-tax taxable year ending after June 30, 1940, shall be 10 per centum greater than the amount of tax which would be payable if computed without regard to this subsection."~~

SEC. 302. DECLARED VALUE EXCESS PROFITS TAX—DEFENSE TAX RATES INCORPORATED IN RATE SCHEDULE.

(a) RATES.—Section 600 of the Internal Revenue Code (relating to rate of declared value excess profits tax) is amended as follows:

(1) By striking out the heading "(a) GENERAL RULE.—";

(2) By amending the rate schedule to read as follows:

"6⅘ per centum of such portion of its net income

for such income-tax taxable year as is in excess of 10 per centum and not in excess of 15 per centum of the declared value;

"13⁷⁄₁₀ per centum of such portion of its net income for such income-tax taxable year as is in excess of 15 per centum of the declared value."; and

(3) By repealing subsection (b) (relating to defense tax for five years).

(b) TECHNICAL AMENDMENT.—Section 601 (including the heading) of the Internal Revenue Code is amended by striking out the word "adjusted" wherever occurring therein.

(c) EFFECTIVE DATE.—This section shall be effective only with respect to income-tax taxable years ending after June 30, 1941, and succeeding years.

TITLE IV—ESTATE AND GIFT TAXES

SEC. 401. ESTATE TAX RATES.

(a) RATES.—Section 935 (b) of the Internal Revenue Code is amended to read as follows:

"(b) The tentative tax referred to in subsection (a) (1) of this section shall be the tentative tax shown in the following table:

~~"If the net estate is:~~	~~The tentative tax shall be:~~
~~Not over $5,000~~	~~3% of the net estate.~~
~~Over $5,000 but not over $10,000~~	~~$150, plus 7% of excess over $5,000.~~
~~Over $10,000 but not over $20,000~~	~~$500, plus 10% of excess over $10,000.~~

~~"If the net estate is:~~	~~The tentative tax shall be:~~
~~Over $20,000 but not over $30,000~~	~~$1,500, plus 13% of excess over $20,000.~~
~~Over $30,000 but not over $40,000~~	~~$2,800, plus 16% of excess over $30,000.~~
~~Over $40,000 but not over $50,000~~	~~$4,400, plus 20% of excess over $40,000.~~
~~Over $50,000 but not over $60,000~~	~~$6,400, plus 23% of excess over $50,000.~~
~~Over $60,000 but not over $100,000.~~	~~$8,700, plus 25% of excess over $60,000.~~
~~Over $100,000 but not over $250,000.~~	~~$18,700, plus 27% of excess over $100,000.~~
~~Over $250,000 but not over $500,000.~~	~~$59,200, plus 29% of excess over $250,000.~~
~~Over $500,000 but not over $750,000.~~	~~$131,700, plus 32% of excess over $500,000.~~
~~Over $750,000 but not over $1,000,000.~~	~~$211,700, plus 34% of excess over $750,000.~~
~~Over $1,000,000 but not over $1,250,000.~~	~~$296,700, plus 36% of excess over $1,000,000.~~
~~Over $1,250,000 but not over $1,500,000.~~	~~$386,700, plus 38% of excess over $1,250,000.~~
~~Over $1,500,000 but not over $2,000,000.~~	~~$481,700, plus 41% of excess over $1,500,000.~~
~~Over $2,000,000 but not over $2,500,000.~~	~~$686,700, plus 45% of excess over $2,000,000.~~
~~Over $2,500,000 but not over $3,000,000.~~	~~$911,700, plus 48% of excess over $2,500,000.~~
~~Over $3,000,000 but not over $3,500,000.~~	~~$1,151,700, plus 51% of excess over $3,000,000.~~
~~Over $3,500,000 but not over $4,000,000.~~	~~$1,406,700, plus 54% of excess over $3,500,000.~~
~~Over $4,000,000 but not over $5,000,000.~~	~~$1,676,700, plus 58% of excess over $4,000,000.~~
~~Over $5,000,000 but not over $6,000,000.~~	~~$2,256,700, plus 61% of excess over $5,000,000.~~
~~Over $6,000,000 but not over $7,000,000.~~	~~$2,866,700, plus 64% of excess over $6,000,000.~~
~~Over $7,000,000 but not over $8,000,000.~~	~~$3,506,700, plus 66% of excess over $7,000,000.~~
~~Over $8,000,000 but not over $10,000,000.~~	~~$4,166,700, plus 69% of excess over $8,000,000.~~
~~Over $10,000,000~~	~~$5,516,700, plus 70% of excess over $10,000,000.~~

"If the net estate is:	*The tentative tax shall be:*
Not over $5,000	*3% of the net estate.*
Over $5,000 but not over $10,000	*$150, plus 7% of excess over $5,000.*
Over $10,000 but not over $20,000	*$500, plus 11% of excess over $10,000.*
Over $20,000 but not over $30,000	*$1,600, plus 14% of excess over $20,000.*
Over $30,000 but not over $40,000	*$3,000, plus 18% of excess over $30,000.*
Over $40,000 but not over $50,000	*$4,800, plus 22% of excess over $40,000.*

"If the net estate is:	*The tentative tax shall be:*
Over $50,000 but not over $60,000	*$7,000, plus 25% of excess over $50,000.*
Over $60,000 but not over $100,000.	*$9,500, plus 28% of excess over $60,000.*
Over $100,000 but not over $250,000.	*$20,700, plus 30% of excess over $100,000.*
Over $250,000 but not over $500,000.	*$65,700, plus 32% of excess over $250,000.*
Over $500,000 but not over $750,000.	*$145,700, plus 35% of excess over $500,000.*
Over $750,000 but not over $1,000,000.	*$233,200, plus 37% of excess over $750,000.*
Over $1,000,000 but not over $1,250,000.	*$325,700, plus 39% of excess over $1,000,000.*
Over $1,250,000 but not over $1,500,000.	*$423,200, plus 42% of excess over $1,250,000.*
Over $1,500,000 but not over $2,000,000.	*$528,200, plus 45% of excess over $1,500,000.*
Over $2,000,000 but not over $2,500,000.	*$753,200, plus 49% of excess over $2,000,000.*
Over $2,500,000 but not over $3,000,000.	*$998,200, plus 53% of excess over $2,500,000.*
Over $3,000,000 but not over $3,500,000.	*$1,263,200, plus 56% of excess over $3,000,000.*
Over $3,500,000 but not over $4,000,000.	*$1,543,200, plus 59% of excess over $3,500,000.*
Over $4,000,000 but not over $5,000,000.	*$1,838,200, plus 63% of excess over $4,000,000.*
Over $5,000,000 but not over $6,000,000.	*$2,468,200, plus 67% of excess over $5,000,000.*
Over $6,000,000 but not over $7,000,000.	*$3,138,200, plus 70% of excess over $6,000,000.*
Over $7,000,000 but not over $8,000,000.	*$3,838,200, plus 73% of excess over $7,000,000.*
Over $8,000,000 but not over $10,000,000.	*$4,568,200, plus 76% of excess over $8,000,000.*
Over $10,000,000	*$6,088,200, plus 77% of excess over $10,000,000."*

~~(b) EFFECTIVE DATE OF AMENDMENT. The amendment made by subsection (a) shall be applicable only to estates of decedents dying after the date of the enactment of this Act.~~

~~(c) DEFENSE TAX MADE PERMANENT. Subchapter C of Chapter 3 of the Internal Revenue Code is amended by striking out "and before the expiration of five years after~~

such date"; by striking out in the heading of the subchapter "FOR FIVE YEARS"; and by striking out in the heading of section 951 "FOR FIVE YEARS".

(b) DEFENSE TAX REPEALED.—Subchapter C of Chapter 3 of the Internal Revenue Code is repealed.

(c) EFFECTIVE DATE.—Subsections (a) and (b) shall be effective only with respect to estates of decedents dying after the date of the enactment of this Act.

SEC. 402. GIFT TAX RATES.

(a) RATES.—The Rate Schedule of section 1001 of the Internal Revenue Code is amended to read as follows:

"If the net gifts are:	The tax shall be:
Not over $5,000	2¼% of the net gifts.
Over $5,000 but not over $10,000	$112.50, plus 5¼% of excess over $5,000.
Over $10,000 but not over $20,000	$375, plus 7½% of excess over $10,000.
Over $20,000 but not over $30,000	$1,125, plus 9¾% of excess over $20,000.
Over $30,000 but not over $40,000	$2,100, plus 12% of excess over $30,000.
Over $40,000 but not over $50,000	$3,300, plus 15% of excess over $40,000.
Over $50,000 but not over $60,000	$4,800, plus 17¼% of excess over $50,000.
Over $60,000 but not over $100,000	$6,525, plus 18¾% of excess over $60,000.
Over $100,000 but not over $250,000.	$14,025, plus 20¼% of excess over $100,000.
Over $250,000 but not over $500,000.	$44,400, plus 21¾% of excess over $250,000.
Over $500,000 but not over $750,000.	$98,775, plus 24% of excess over $500,000.
Over $750,000 but not over $1,000,000.	$158,775, plus 25½% of excess over $750,000.
Over $1,000,000 but not over $1,250,000.	$222,525, plus 27% of excess over $1,000,000.
Over $1,250,000 but not over $1,500,000.	$290,025, plus 28½% of excess over $1,250,000.
Over $1,500,000 but not over $2,000,000.	$361,275, plus 30¾% of excess over $1,500,000.
Over $2,000,000 but not over $2,500,000.	$515,025, plus 33¾% of excess over $2,000,000.

~~"If the net gifts are:~~	~~The tax shall be:~~
~~Over $2,500,000 but not over $3,000,000.~~	~~$683,775, plus 36% of excess over $2,500,000.~~
~~Over $3,000,000 but not over $3,500,000.~~	~~$863,775, plus 38½% of excess over $3,000,000.~~
~~Over $3,500,000 but not over $4,000,000.~~	~~$1,055,025, plus 40½% of excess over $3,500,000.~~
~~Over $4,000,000 but not over $5,000,000.~~	~~$1,257,525, plus 43½% of excess over $4,000,000.~~
~~Over $5,000,000 but not over $6,000,000.~~	~~$1,692,525, plus 45¾% of excess over $5,000,000.~~
~~Over $6,000,000 but not over $7,000,000.~~	~~$2,150,025, plus 48% of excess over $6,000,000.~~
~~Over $7,000,000 but not over $8,000,000.~~	~~$2,630,025, plus 49½% of excess over $7,000,000.~~
~~Over $8,000,000 but not over $10,000,000.~~	~~$3,125,025, plus 51¾% of excess over $8,000,000.~~
~~Over $10,000,000~~	~~$4,160,025, plus 52½% of excess over $10,000,000."~~

"If the net gifts are:	*The tax shall be:*
Not over $5,000	*2¼% of the net gifts.*
Over $5,000 but not over $10,000	*$112.50, plus 5¼% of excess over $5,000.*
Over $10,000 but not over $20,000	*$375, plus 8¼% of excess over $10,000.*
Over $20,000 but not over $30,000	*$1,200, plus 10½% of excess over $20,000.*
Over $30,000 but not over $40,000	*$2,250, plus 13½% of excess over $30,000.*
Over $40,000 but not over $50,000	*$3,600, plus 16½% of excess over $40,000.*
Over $50,000 but not over $60,000	*$5,250, plus 18¾% of excess over $50,000.*
Over $60,000 but not over $100,000	*$7,125, plus 21% of excess over $60,000.*
Over $100,000 but not over $250,000.	*$15,525, plus 22½% of excess over $100,000.*
Over $250,000 but not over $500,000.	*$49,275, plus 24% of excess over $250,000.*
Over $500,000 but not over $750,000.	*$109,275, plus 26¼% of excess over $500,000.*
Over $750,000 but not over $1,000,000.	*$174,900, plus 27¾% of excess over $750,000.*
Over $1,000,000 but not over $1,250,000.	*$244,275, plus 29¼% of excess over $1,000,000.*
Over $1,250,000 but not over $1,500,000.	*$317,400, plus 31½% of excess over $1,250,000.*
Over $1,500,000 but not over $2,000,000.	*$396,150, plus 33¾% of excess over $1,500,000.*
Over $2,000,000 but not over $2,500,000.	*$564,900, plus 36¾% of excess over $2,000,000.*
Over $2,500,000 but not over $3,000,000.	*$748,650, plus 39¾% of excess over $2,500,000.*
Over $3,000,000 but not over $3,500,000.	*$947,400, plus 42% of excess over $3,000,000.*
Over $3,500,000 but not over $4,000,000.	*$1,157,400, plus 44¼% of excess over $3,500,000.*

"If the net gifts are:	*The tax shall be:*
Over $4,000,000 but not over $5,000,000.	*$1,378,650, plus 47¼% of excess over $4,000,000.*
Over $5,000,000 but not over $6,000,000.	*$1,851,150, plus 50¼% of excess over $5,000,000.*
Over $6,000,000 but not over $7,000,000.	*$2,353,650, plus 52½% of excess over $6,000,000.*
Over $7,000,000 but not over $8,000,000.	*$2,878,650, plus 54¾% of excess over $7,000,000.*
Over $8,000,000 but not over $10,000,000.	*$3,426,150, plus 57% of excess over $8,000,000.*
Over $10,000,000	*$4,566,150, plus 57¾% of excess over $10,000,000."*

(b) YEARS TO WHICH ~~AMENDMENT~~ *AMENDMENTS* APPLICABLE.—The ~~amendment made by subsection (a)~~ *amendments made by this section* shall be applied in computing the tax for the calendar year 1942 and each calendar year thereafter (but not the tax for the calendar year 1941 or a previous calendar year), and such ~~amendment~~ *amendments* shall be applied in all computations in respect of the calendar year 1941 and previous calendar years for the purpose of computing the tax for the calendar year 1942 and any calendar year thereafter.

~~(c) DEFENSE TAX RATES MADE PERMANENT.—Section 1001 (d) of the Internal Revenue Code is amended by striking out "1941 to 1945, both inclusive," and inserting in lieu thereof "after 1940"; and by striking out in the heading "for 1940-1945".~~

(c) DEFENSE TAX REPEALED.—Section 1001 (d) of

the Internal Revenue Code (relating to defense tax for five years on gifts) is repealed.

TITLE V—EXCISE TAXES

Part I—1932 Excise Taxes Made Permanent

SEC. 501. 1932 EXCISE TAXES MADE PERMANENT.

Section 3452 of the Internal Revenue Code (relating to expiration of 1932 excise taxes) is repealed.

SEC. 502. PIPE LINE TAX.

Section 3460 (a) of the Internal Revenue Code (relating to termination of tax on transportation by pipe line) is amended by striking out "originating before July 1, 1945".

SEC. 503. TECHNICAL AMENDMENT.

The heading of Subtitle C of the Internal Revenue Code is amended to read as follows:

"SUBTITLE C—MANUFACTURERS' EXCISE AND IMPORT TAXES AND TEMPORARY TAXES"

SEC. 504. BOND TAX.

Section 3481 (b) (relating to expiration of tax on transfer of bonds) is repealed.

SEC. 505. CONVEYANCE TAX.

Section 3482 (relating to tax on conveyances) is amended by striking out "delivered before July 1, 1945".

Part II—Defense Tax Rates Made Permanent (No Increase in Tax and No Change in Basis of Tax)

SEC. 521. DEFENSE EXCISE TAX RATES MADE PERMANENT WHICH ARE NOT INCREASED BY THIS ACT.

(a) The following sections of the Internal Revenue Code are amended as follows:

~~(1) BOX SEATS.—Section 1700 (b) (1) is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".~~

~~(2) SALES OUTSIDE BOX OFFICE.—Section 1700 (c) (1) is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".~~

~~(3)~~ *(1)* CORPORATE SECURITIES.—Section 1801 is amended by striking out "10 cents until July 1, 1945, and 5 cents thereafter" and inserting in lieu thereof "11 cents".

~~(4)~~ *(2)* CAPITAL STOCK ISSUES.—Section 1802 (a) is amended by striking out "10 cents until July 1, 1945, and 5 cents thereafter" and the comma wherever following such expression and inserting in lieu thereof "11 cents"; and by striking out "2 cents until July 1, 1945, and 1 cent thereafter," and inserting in lieu thereof "3 cents".

~~(5)~~ *(3)* CAPITAL STOCK TRANSFERS.—Section 1802 (b) is amended by striking out "4 cents until July 1, 1945, and 2 cents thereafter," and inserting in lieu thereof "5 cents"; and by striking out "5 cents instead of 4 cents until July 1, 1945" and inserting in lieu thereof "6 cents".

~~(6)~~ *(4)* INSURANCE POLICIES.—Section 1804 is amended by striking out "3 cents" and inserting in lieu thereof "4 cents".

~~(7)~~ *(5)* PASSAGE TICKETS.—Section 1806 is amended by striking out "$1" and inserting in lieu thereof "$1.10"; by striking out "$3" and inserting in lieu thereof "$3.30"; and by striking out "$5" and inserting in lieu thereof "$5.50".

~~(8)~~ *(6)* CIGARETTES.—Section 2000 (c) (2) is amended by striking out "$3" and inserting in lieu thereof "$3.25" and by striking out "$7.20" and inserting in lieu thereof "$7.80".

~~(9)~~ *(7)* PISTOLS AND REVOLVERS.—Section 2700 (a) is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

~~(10)~~ *(8)* FERMENTED MALT LIQUORS.—Section 3150 (a) is amended by striking out "$5" and inserting in lieu thereof "$6".

~~(11)~~ *(9)* WHOLESALERS OF LIQUOR.—Section 3250 (a) (1) is amended by striking out "$100" and inserting in lieu thereof "$110".

~~(12)~~ *(10)* RETAILERS OF LIQUOR.—Section 3250 (b) is amended by striking out "$25" and inserting in lieu thereof "$27.50".

~~(13)~~ *(11)* BREWERS.—Section 3250 (c) is amended by striking out "$100" and inserting in lieu thereof "$110" and by striking out "$50" and inserting in lieu thereof "$55".

~~(14)~~ *(12)* WHOLESALERS OF MALT LIQUORS.—Section 3250 (d) is amended by striking out "$50" and inserting in lieu thereof "$55".

~~(15)~~ *(13)* RETAILERS OF MALT LIQUORS.—Section 3250 (e) (1) is amended by striking out "$20" and inserting in lieu thereof "$22", and section 3250 (e) (3) is amended by striking out "$2" and inserting in lieu thereof "$2.20".

~~(16)~~ *(14)* RECTIFIERS.—Section 3250 (f) (1) is amended by striking out "$200" and inserting in lieu thereof "$220"; and by striking out "$100" and inserting in lieu thereof "$110".

~~(17)~~ *(15)* STILLS.—Section 3250 (j) is amended by striking out "$50" and inserting in lieu thereof "$55";

and by striking out "$20" and inserting in lieu thereof "$22".

~~(18)~~ *(16)* FIREARMS, ETC.—Section 3407 is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

~~(19)~~ *(17)* ELECTRICAL ENERGY.—Section 3411 is amended by striking out "3 per centum" and inserting in lieu thereof "3⅓ per centum".

~~(20)~~ *(18)* GASOLINE.—Section 3412 (a) is amended by striking out "1 cent" and inserting in lieu thereof "1½ cents".

~~(21)~~ *(19)* LUBRICATING OILS.—Section 3413 is amended by striking out "4 cents" and inserting in lieu thereof "4½ cents".

~~(22)~~ *(20)* TRANSPORTATION OF OIL BY PIPE LINE.—Section 3460 (a) is amended by striking out "4 per centum" and inserting in lieu thereof "4½ per centum".

~~(23)~~ *(21)* TRANSFER OF BONDS.—Section 3481 (a) is amended by striking out "4 cents" and inserting in lieu thereof "5 cents".

~~(24)~~ *(22)* CONVEYANCES.—Section 3482 is amended by striking out "50 cents" and inserting in lieu thereof "55 cents".

(b) The rates specified in subsection (a) shall be applicable only with respect to the period after the date of the enactment of this Act, and the rates specified in section 1650 (a), section 2004, and section 3190 of the Internal Revenue Code shall not apply with respect to such period.

Part III—Increases in Rates of Existing Excise Taxes

SEC. 531. PLAYING CARDS.

Section 1807 (a) of the Internal Revenue Code is amended by striking out "10 cents" and inserting in lieu thereof "13 cents".

SEC. 532. SAFE DEPOSIT BOXES.

Section 1850 (a) of the Internal Revenue Code is amended by striking out "10 per centum" and inserting in lieu thereof "20 per centum".

SEC. 533. DISTILLED SPIRITS.

(a) RATE ON DISTILLED SPIRITS AND BRANDY.—Section 2800 (a) (1) of the Internal Revenue Code is amended by striking out "at the rate of $2.25 (and on brandy at the rate of $2)" and by inserting in lieu thereof "at the rate of $4 ~~(and on brandy at the rate of $3.75)~~".

(b) RATE ON IMPORTED PERFUMES CONTAINING ALCOHOL.—Section 2800 (a) (3) of the Internal Revenue Code is amended by striking out "$2.25" and inserting in lieu thereof "$4".

(c) DRAWBACK ON DISTILLED SPIRITS.—The third

paragraph of section 2887 of the Internal Revenue Code is amended by striking out "but shall not exceed a rate of $3 (or, in the case of brandy, $2.75)" and inserting in lieu thereof "but shall not exceed a rate of $4 ~~(or, in the case of brandy, $3.75)~~".

(d) FLOOR STOCKS TAX.—Section 2800 of the Internal Revenue Code is amended by inserting at the end thereof the following new subsection:

"(i) FLOOR STOCKS TAX.—

"(1) Upon all distilled spirits upon which the internal-revenue tax imposed by law has been paid, and which on the effective date of Part III of Title V of the Revenue Act of 1941 are held and intended for sale or for use in the manufacture or production of any article intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax of $1 on each proof-gallon, and a proportionate tax at a like rate on all fractional parts of such proof-gallon.

"(2) Every person required by this subsection to pay any floor stocks tax shall, on or before the first day of the third month beginning after such effective date, under such regulations as the Commissioner, with the approval of the Secretary, shall prescribe, make a return and pay such tax. Payment of the tax shown to be due may be extended to a date not later than the

first day of the tenth month beginning after such effective date, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Commissioner, with the approval of the Secretary, may prescribe.

"(3) All provisions of law, including penalties, applicable in respect of internal-revenue taxes on distilled spirits shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the floor stocks tax imposed hereunder. For the purposes of this subsection the term 'distilled spirits' shall include products produced in such manner that the person producing them is a rectifier within the meaning of section 3254 (g)."

SEC. 534. WINES.

(a) RATE ON STILL WINES.—Section 3030 (a) (1) (A) of the Internal Revenue Code is amended by striking out "5 cents" and inserting in lieu thereof "~~8 cents~~ *10 cents*"; by striking out "15 cents" and inserting in lieu thereof "~~24 cents~~ *35 cents*"; and by striking out "25 cents" and inserting in lieu thereof "~~50 cents~~ *65 cents*".

(b) RATE ON SPARKLING WINES, LIQUEURS, CORDIALS, ETC.—Section 3030 (a) (2) of the Internal Revenue Code is amended by striking out "2½ cents" and inserting

in lieu thereof "~~4 cents~~ *7 cents*"; and by striking out "1¼ cents" and inserting in lieu thereof "~~2¼ cents~~ *3½ cents*".

(c) Subchapter F of Chapter 26 of the Internal Revenue Code is amended by inserting at the end thereof the following new section:

"SEC. 3192. FLOOR STOCKS TAX ON WINES.

"(a) FLOOR STOCKS TAX.—Upon all wines upon which the internal-revenue tax imposed by law has been paid, and which on the effective date of Part III of Title V of the Revenue Act of 1941 are held and intended for sale or for use in the manufacture or production of an article intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax at rates equal to the increases in rates of tax (over the defense tax rates) made applicable to such articles by section 534 of the Revenue Act of 1941.

"(b) RETURNS.—Every person required by subsection (a) to pay any floor stocks tax shall, on or before the first day of the third month beginning after such effective date, under such regulations as the Commissioner, with the approval of the Secretary, shall prescribe, make a return and pay such tax. Payment of the tax shown to be due may be extended to a date not later than the first day of the tenth month beginning after such effective date, upon the filing of a bond for payment thereof in such form and amount

and with such surety or sureties as the Commissioner, with the approval of the Secretary, may prescribe.

"(c) LAWS APPLICABLE.—All provisions of law, including penalties, applicable in respect of the taxes imposed by section 3030 (a) shall, insofar as applicable and not inconsistent with this subsection, be applicable with respect to the floor stocks tax imposed by subsection (a)."

SEC. 535. TIRES AND TUBES.

(a) RATE ON TIRES.—Section 3400 (1) of the Internal Revenue Code is amended by striking out "2¼ cents" and inserting in lieu thereof "5 cents".

(b) RATE ON TUBES.—Section 3400 (2) of the Internal Revenue Code is amended by striking out "4 cents" and inserting in lieu thereof "9 cents".

(c) FLOOR STOCKS TAX ON TIRES AND INNER TUBES.—Section 3400 of the Internal Revenue Code is amended by inserting "(a) TAX.—" before the beginning thereof and by inserting at the end thereof the following:

"(b) FLOOR STOCKS TAX.—Upon tires and inner tubes subject to tax under subsection (a) of the type used on vehicles subject to tax under section 3403 (a) or (b) which on the effective date of Part III of Title V of the Revenue Act of 1941 are held for sale by any person there shall be levied, assessed, collected, and paid a floor stocks tax at the rate of 2½ cents per pound in the case of tires and 4½ cents

per pound in the case of inner tubes. The tax shall apply to tires and inner tubes held for sale on, or in connection with, or held for use in the manufacture or production of, articles the sale of which will be subject to tax under section 3403 (a) or (b). The tax shall not apply to tires and inner tubes held for sale by the manufacturer, producer, or importer thereof, and to tires and inner tubes the sale of which will be subject under the provisions of sections 3444 (a) (2) and 3445 to the manufacturers' tax on tires and inner tubes."

SEC. 536. EFFECTIVE DATE OF PART III.

The amendments made by this Part shall be applicable only with respect to the period beginning with the effective date of this Part, and the rates specified in section 1650 (a), section 1807 (b), section 2004, section 2800 (g), and section 3190 of the Internal Revenue Code shall not apply with respect to such period. This Part shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this Act.

Part IV—Changes in Basis of Computing Tax (Rates Increased in Certain Cases)

SEC. 541. ADMISSIONS TAX.

(a) REDUCTION OF EXEMPTION.—Section 1700 (a) (1) of the Internal Revenue Code is amended to read as follows:

"(1) RATE.—~~A tax of 1 cent for each 10 cents or~~

~~fraction thereof of the amount paid for admission to any place, including admission by season ticket or subscription; except that in case the amount paid for admission is less than 10 cents, no tax shall be imposed. In the~~ *A tax on the amount paid for admission to any place, including admission by season ticket or subscription, at the rates set forth in the following schedule:*

If the amount charged is:	***The tax shall be:***
Not over 10 cents	*1 cent*
Over 10 cents and not over 15 cents	*2 cents*
Over 15 cents and not over 20 cents	*3 cents*
Over 20 cents and not over 25 cents	*4 cents*
Over 25 cents and not over 35 cents	*5 cents*
Over 35 cents and not over 40 cents	*6 cents*
Over 40 cents and not over 45 cents	*7 cents*
Over 45 cents and not over 50 cents	*8 cents*
Over 50 cents	*15 per centum of the amount charged; fractions of one-half cent or more shall be increased to 1 cent; smaller fractions shall be disregarded.*

In the case of persons (except bona fide employees, municipal officers on official business, ~~children under twelve~~ *persons under eighteen* years of age, members of the military or naval forces of the United States when in uniform, and members of the Civilian Conservation Corps when in uniform) admitted free or at reduced rates to any place at any time when and under circumstances under which an admission charge is made to other persons, an equivalent tax shall be collected based on the price so charged to such other persons for the same or similar accommodations, to be paid by the person so ad-

mitted. ~~Amounts paid for admission by season ticket or subscription shall be exempt only if the amount which would be charged to the holder or subscriber for a single admission is less than 10 cents.~~"

(b) BOX SEATS.—Section 1700 (b) (1) of the Internal Revenue Code is amended by striking out "10 per centum" and inserting in lieu thereof "15 per centum".

(c) SALES OUTSIDE BOX OFFICE.—Section 1700 (c) (1) of the Internal Revenue Code is amended by striking out "10 per centum" and inserting in lieu thereof "15 per centum".

~~(b) TERMINATION OF EXEMPTIONS.—Section 1701 of the Internal Revenue Code (relating to exemptions from admissions tax)~~ *(d) TERMINATION OF EXEMPTIONS OF CHARITABLE, ETC., ENTERTAINMENTS.—Section 1701 (a) of the Internal Revenue Code* shall not apply with respect to amounts paid, on or after the effective date of this Part, for admission.

~~(c)~~ *(c)* EXEMPTION OF NATIONAL PARK, ETC., ADMISSIONS TERMINATED.—The Interior Department Appropriation Act, 1942, is amended by striking out that part thereof under the heading "NATIONAL PARK SERVICE" which reads as follows:

"Hereafter fees incident to admission to the national parks and monuments and other areas in the national park

system, charged and collected with the approval of the Secretary of the Interior, shall be exempt from all Federal tax on admissions."

The Act entitled "An Act making appropriations for the Department of the Interior for the fiscal year ending June 30, 1936, and for other purposes", approved May 9, 1935, is amended by striking out that part thereof under the heading "NATIONAL PARK SERVICE" which reads as follows: ": *Provided*, That any admission fee charged for entrance to Carlsbad Caverns and any fee charged for guide service therein, shall be exempt from all taxes on admissions".

SEC. 542. CABARET, ROOF GARDEN, ETC., TAX.

(a) IMPOSITION.—Section 1700 (e) of the Internal Revenue Code is amended to read as follows:

"(e) TAX ON CABARETS, ROOF GARDENS, ETC.—

"(1) RATE.—A tax equivalent to 5 per centum of all amounts paid for admission, refreshment, service, and merchandise, at any roof garden, cabaret, or other similar place furnishing a public performance for profit, if any payment, or part thereof, for admission, refreshment, service, or merchandise, entitles the patron to be present during any portion of such performance. No tax shall be applicable under subsection (a) (1) on account of an amount paid with respect to which tax is imposed under this subsection.

"(2) BY WHOM PAID.—The tax imposed under paragraph (1) shall be returned and paid by the person receiving such payments."

(b) PLACE OF PAYMENT.—Section 1715 (b) of the Internal Revenue Code is amended to read as follows:

"(b) PLACE OF PAYMENT.—The taxes collected under subsection (a), and the taxes required to be paid under section 1700 (c), (d), or (e), shall be paid to the collector of the district in which the principal office or place of business is located."

(c) RETURNS.—Section 1716 (a) of the Internal Revenue Code is amended to read as follows:

"(a) REQUIREMENT.—Every person required under subsection (a) of section 1715 to collect the taxes, or required under section 1700 (c), (d), or (e) to pay the taxes, imposed by this chapter shall make returns under oath, in duplicate, in such manner and containing such information as the Commissioner, with the approval of the Secretary, may, by regulation, prescribe."

(d) Section 1700 (c) (3) and section 1700 (d) (3) of the Internal Revenue Code are repealed as of the effective date of this Part.

SEC. 543. CLUB DUES.

(a) REDUCTION OF EXEMPTION AND DEFENSE TAX RATE MADE PERMANENT.—Section 1710 (a) (1) and (2)

of the Internal Revenue Code are amended to read as follows:

"(1) DUES OR MEMBERSHIP FEES.—A tax equivalent to 11 per centum of any amount paid as dues or membership fees to any social, athletic, or sporting club or organization, if the dues or fees of an active resident annual member are in excess of $10 per year.

"(2) INITIATION FEES.—A tax equivalent to 11 per centum of any amount paid as initiation fees to such a club or organization, if such fees amount to more than $10, or if the dues or membership fees, not including initiation fees, of an active resident annual member are in excess of $10 per year."

(b) DEFINITION OF DUES.—Section 1712 (a) of the Internal Revenue Code is amended to read as follows:

"(a) DUES.—The term 'dues' includes any assessment, irrespective of the purpose for which made, and any charges for social privileges or facilities, or for golf, tennis, polo, swimming, or other athletic or sporting privileges or facilities, for any period of more than six days; and".

SEC. 544. AUTOMOBILE, TRUCK, BUS, AND PARTS TAX.

(a) INCREASE OF RATE AND CLASSIFICATION OF BUSSES.—Section 3403 (a) and (b) of the Internal Revenue Code are amended to read as follows:

"(a) Automobile truck chassis, automobile truck

bodies, automobile bus chassis, automobile bus bodies, truck and bus trailer and semitrailer chassis, truck and bus trailer and semitrailer bodies, tractors of the kind chiefly used for highway transportation in combination with a trailer or semitrailer (including in each of the above cases parts or accessories therefor sold on or in connection therewith or with the sale thereof), 5 per centum. A sale of an automobile truck, bus, or truck or bus trailer or semitrailer, shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body.

"(b) Other automobile chassis and bodies, chassis and bodies for trailers or semitrailers suitable for use in connection with passenger automobiles, and motorcycles (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof), except tractors, 7 per centum. A sale of an automobile, trailer, or semitrailer shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body."

(b) INCREASE IN RATE ON PARTS AND EXCLUSION OF RADIOS FROM AUTOMOBILE TAX.—The first sentence of section 3403 (c) of the Internal Revenue Code is amended to read as follows: "Parts or accessories (other than tires and inner tubes and other than radios) for any of the articles enumerated in subsection (a) or (b), 5 per centum."

(c) CREDITS ON ACCOUNT OF TIRE AND TUBE TAX.—

Section 3403 (e) of the Internal Revenue Code is amended to read as follows:

"(e) If tires or inner tubes on which tax has been imposed under this chapter are sold on or in connection with, or with the sale of, a chassis, body, or motor cycle, there shall (under regulations prescribed by the Commissioner, with the approval of the Secretary) be credited against the tax under this section an amount equal to, in the case of an article taxable under subsection (a), 5 per centum, and in the case of an article taxable under subsection (b), 7 per centum—

"(1) of the purchase price (less, in the case of tires, the part of such price attributable to the metal rim or rim base) if such tires or inner tubes were taxable under section 3400 (relating to tax on tires and inner tubes); or

"(2) if such tires or inner tubes were taxable under section 3444 (relating to use by manufacturer, producer, or importer) then of the price (less, in the case of tires, the part of such price attributable to the metal rim or rim base) at which such or similar tires or inner tubes are sold, in the ordinary course of trade, by manufacturers, producers, or importers thereof, as determined by the Commissioner. In lieu of the rates of credit of 5 per

centum and 7 per centum above provided, the rates, respectively, for the following periods, shall be as follows:

"(A) With respect to the period after June 30, 1940, and before the effective date of the increase in tax on automobiles made by the Revenue Act of 1941, $2\frac{1}{2}$ per centum and $3\frac{1}{2}$ per centum; and

"(B) With respect to the period before July 1, 1940, 2 per centum and 3 per centum."

(d) CREDITS ON TERMINATION OF TAX.—Section 3403 (f) of the Internal Revenue Code (relating to credits and refunds on termination of automobile tax) is repealed.

SEC. 545. RADIOS, PHONOGRAPHS, RECORDS, AND MUSICAL INSTRUMENTS.

Section 3404 of the Internal Revenue Code is amended to read as follows:

"SEC. 3404. TAX ON RADIO RECEIVING SETS, PHONOGRAPHS, PHONOGRAPH RECORDS, AND MUSICAL INSTRUMENTS.

"There shall be imposed upon the following articles (including in each case, except in the case of musical instruments, parts or accessories therefor sold on or in connection with the sale thereof) sold by the manufacturer, producer, or importer a tax equivalent to 10 per centum of the price for which sold:

"(a) Radio receiving sets, automobile radio receiv-

ing sets, combination radio and phonograph sets, and phonographs.

"(b) Chassis, cabinets, tubes, reproducing units, power packs, antennae of the 'built-in' type, and phonograph mechanisms, which are suitable for use on or in connection with, or as component parts of, any of the articles enumerated in subsection (a), whether or not primarily adapted for such use.

"(c) Phonograph records.

"(d) Musical instruments."

SEC. 546. MECHANICAL REFRIGERATORS.

Section 3405 of the Internal Revenue Code is amended to read as follows:

"SEC. 3405. TAX ON REFRIGERATORS, REFRIGERATING APPARATUS, AND AIR-CONDITIONERS.

"There shall be imposed on the following articles (including in each case parts or accessories therefor sold on or in connection with the sale thereof) sold by the manufacturer, producer, or importer a tax equivalent to 10 per centum of the price for which so sold:

"(a) REFRIGERATORS, ETC.—Refrigerators, beverage coolers, ice cream cabinets, water coolers, food and beverage display cases, food and beverage storage cabinets, ice making machines, and milk cooler cabinets, each such article having, or being primarily designed

for use with, a mechanical refrigerating unit operated by electricity, gas, kerosene, or gasoline.

"(b) REFRIGERATING APPARATUS.—Compressors, condensers, evaporators, expansion units, absorbers, and controls, for, or suitable for use as part of, or with, a refrigerating plant, refrigerating system, refrigerating equipment or unit, or any of the articles enumerated in subsection (a).

"(c) AIR-CONDITIONERS.—Self-contained air-conditioning units.

"(d) COMPONENTS.—Cabinets, compressors, condensers, fans, blowers, heating coils, cooling coils, filters, humidifiers, and controls, for, or suitable for use as part of, or with, any of the articles enumerated in subsection (c)."

SEC. 547. MATCHES.

Section 3409 of the Internal Revenue Code is amended to read as follows:

"SEC. 3409. TAX ON MATCHES.

"(a) MANUFACTURERS' TAX.—There shall be imposed upon matches sold by the manufacturer, producer, or importer, a tax of 2 cents per 1,000 matches, except that in the case of fancy wooden matches and wooden matches having a stained, dyed, or colored stick or stem, packed in boxes or in bulk, the tax shall be $5\frac{1}{2}$ cents per 1,000 matches.

"(b) FLOOR STOCKS TAX.—On matches subject to tax under subsection (a) which, on the effective date of Part IV of Title V of the Revenue Act of 1941, are held and intended for sale, or for disposition in connection with the sale of other articles, there shall be levied, assessed, collected, and paid a floor stocks tax at the rate of 2 cents per thousand matches. The tax shall not apply to matches in retail stocks held at the place where intended to be sold or disposed of. The tax shall not apply to matches held for sale by the manufacturer, producer, or importer thereof, nor to fancy wooden matches or wooden matches having a stained, dyed, or colored stick or stem."

SEC. 548. TELEPHONE, TELEGRAPH, ETC.

Sections 3465 and 3466 of the Internal Revenue Code are amended to read as follows:

"SEC. 3465. IMPOSITION AND RATE OF TAX.

"(a) There shall be imposed:

~~"(1) In the case of each telegraph, telephone, cable or radio dispatch, message, or conversation which originates within the United States for which the charge is more than 24 cents, a tax of 5 cents for each 50 cents, or fraction thereof, of the charge. Only one payment of such tax shall be required notwithstanding the lines or stations of one or more persons are used for the~~

~~transmission of such dispatch, message, or conversation; and~~

~~"(2) A tax equivalent to 5 per centum of the amount paid for any of the following services:~~

~~"(A) Leased wire or talking circuit special service; or~~

~~"(B) Wire and equipment services (including teletypewriter service, burglar alarm service, news ticker services, stock quotation and information services, and all other similar services).~~

"(1) (A) In the case of each telephone or radio telephone message or conversation which originates within the United States, for which the charge is more than 24 cents, a tax of five cents for each 50 cents, or fraction thereof, of the charge.

"(B) In the case of each telegraph, cable, or radio dispatch or message which originates within the United States, a tax of 10 per centum of the amount of the charge.

Only one payment of a tax imposed by subparagraph (A) or (B) shall be required notwithstanding the lines or stations of one or more persons are used in the transmission of such dispatch, message, or conversation.

"(2) (A) A tax equivalent to 10 per centum of

the amount paid for leased wire, teletypewriter, or talking circuit special service.

"(B) A tax equivalent to 5 per centum of the amount paid for any wire and equipment service (including stock quotation and information services, and all other similar services, but not including news ticker services furnishing a general news service similar to that contained in the public press, burglar or fire alarm service, or service described in subparagraph (A)).

The tax shall apply under this paragraph whether or not the wires or services are within a local exchange area.

"(3) A tax equivalent to ~~5 per centum~~ *10 per centum* of the amount paid by subscribers for local telephone service and for any other telephone service in respect of which a tax is not payable under paragraph (1) or (2). Amounts paid for the installation of instruments, wires, poles, switchboards, apparatus, and equipment shall not be considered amounts paid for service. Service paid for by inserting coins in coin-operated telephones shall not be subject to the tax imposed by this paragraph.

"(b) This section shall not apply to the amount paid for so much of the service described in paragraph (2) of subsection (a) as is utilized in the conduct, by a common

carrier or telephone or telegraph company or a radio broadcasting station or network, of its business as such.

"SEC. 3466. EXEMPTION FROM TAX.

"(a) No tax shall be imposed under section 3465 upon any payment received for services or facilities furnished to the United States or to any State or Territory, or political subdivision thereof, or the District of Columbia.

"(b) No tax shall be imposed under section 3465 (a) (1) and (2) upon any payment received from any person for services or facilities utilized in the collection of news for the public press or radio broadcasting, or in the dissemination of news through the public press or by means of radio broadcasting, if the charge for such services or facilities is billed in writing to such person. Section 3465 (a) (3) shall not be construed as imposing a tax on services and facilities described in section 3465 (a) (1) or (2) which are exempt from tax under this subsection.

"(c) The right to exemption under this section shall be evidenced in such manner as the Commissioner with the approval of the Secretary may by regulation prescribe."

SEC. 549. INSTALLMENT, ETC., PAYMENTS.

Section 3441 (c) of the Internal Revenue Code is amended to read as follows:

"(c) (1) In the case of (A) a lease, (B) a contract

for the sale of an article wherein it is provided that the price shall be paid by installments and title to the article sold does not pass until a future date notwithstanding partial payment by installments, or (C) a conditional sale, there shall be paid upon each payment with respect to the article that portion of the total tax which is proportionate to the portion of the total amount to be paid represented by such payment.

"(2) In the application of paragraph (1) to the articles with respect to which the rate of tax is increased by the Revenue Act of 1941 or by the Revenue Act of 1940, where the lease, contract of sale, or conditional sale, and delivery thereunder—

"(A) was made before July 1, 1940, the total tax referred to in paragraph (1) shall be the tax at the rate in force on June 30, 1940, and not at any greater rate; or

"(B) was made after June 30, 1940, and before ~~July 1, 1941~~ *the effective date of Part IV of the Revenue Act of 1941*, the total tax referred to in paragraph (1) shall be the tax at the rate in force on ~~June 30, 1941~~ *the day before the effective date of Part IV of the Revenue Act of 1941*, and not at any greater rate.

"(3) Despite the provisions of paragraph (1), no tax shall be imposed with respect to any article not taxable under the law in existence on the day before the date of the enactment of the Revenue Act of 1941, if with respect to such

article the lease, contract for sale, or conditional sale, and delivery thereunder, was made before ~~July 1, 1941~~ *the effective date of Part IV of the Revenue Act of 1941*."

SEC. 550. EFFECTIVE DATE OF PART IV.

(a) The amendments made by this Part shall be applicable only with respect to the period beginning with the effective date of this Part, and the rates specified in section 1650 (a), section 1807 (b), section 2004, section 2800 (g), and section 3190 of the Internal Revenue Code shall not apply with respect to such period. This Part shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this Act.

(b) Despite the provisions of subsection (a), the tax imposed by section 1700 (e) of the Internal Revenue Code, as amended by section 542 of this Act (relating to cabaret, etc., tax), shall be applicable only with respect to the period beginning at 10:00 A. M. on the effective date of this Part, and the tax imposed by such subsection as in force prior to its amendment by section 542 of this Act, as modified by section 1650 (a) of the Internal Revenue Code, shall be applicable with respect to the period before 10:00 A. M. on such date.

(c) Despite the provisions of subsection (a), the amendment of section 3465 (a) (2) made by section 548 of this

Act (relating to tax on leased-wire, etc., services) shall be applicable only to amounts paid on or after such effective date for services rendered, on or after the effective date of this Part, and the provisions of such subsection before its amendment by section 548 shall be applicable with respect to the period before such effective date.

(d) Despite the provisions of subsection (a), section 3465 (a) (3) of the Internal Revenue Code (relating to tax on telephone bills), added to the Internal Revenue Code by section 548 of this Act, shall apply only to the amounts paid in pursuance of bills rendered, after the expiration of five days after the effective date of this Part, for services for which no previous bill was rendered. Such section 3465 (a) (3) shall not apply to amounts paid for services otherwise taxable under section 3465 (a) (1) which were rendered before such effective dates; nor to amounts paid for services otherwise taxable under section 3465 (a) (2) which were rendered or paid for before such effective date.

Part V—New Excise Taxes

~~SEC. 551. SOFT DRINKS.~~

~~Subchapter A of chapter 29 of the Internal Revenue Code is amended by inserting after section 3401 the following new section:~~

~~"SEC. 3402. TAX ON SOFT DRINKS.~~

~~"(a) DEFINITIONS.—As used in this section—~~

~~"(1) The term 'soft drinks' means carbonated bever-~~

ages of the kind commonly known as soft drinks, carbonated liquids of the kind commonly known or commonly used as mixers, sparkling waters, and carbonated natural or artificial mineral waters if such mineral waters contain not more than 60 grains of minerals (dried at the temperature of boiling water) per U. S. gallon. As used in this paragraph the term 'carbonated' includes both natural and artificial carbonation.

"(2) The term 'bottler' means any person who places soft drinks in bottles.

"(3) The term 'bottle' means any bottle, can, keg, or similar closed container.

"(b) BOTTLED SOFT DRINKS.—

"(1) IMPOSITION OF TAX.—There shall be imposed on soft drinks in bottles sold by the bottler or importer, a tax at the following rates:

"(A) If the bottle contains not more than 33 fluid ounces:

"If bottled or imported to retail at not more than 10 cents per bottle, $\frac{1}{6}$ cent per bottle.

"If bottled or imported to retail at more than 10 cents and not more than 20 cents per bottle, $\frac{1}{3}$ cent per bottle.

"If bottled or imported to retail at more than 20 cents per bottle, $\frac{1}{2}$ cent per bottle.

"(B) If the bottle contains more than 33 fluid ounces, 6 per centum of the price for which so sold.

"(2) RETAIL PRICES.—Whenever in paragraph (1) reference is made to soft drinks bottled or imported to retail at not more than a certain price per bottle, then in determining the tax to be paid regard shall be had to the ordinary retail price of a single bottle in its principal market.

"(c) FINISHED OR FOUNTAIN SYRUPS.—

"(1) IMPOSITION OF TAX.—There shall be imposed upon finished or fountain syrups, of the kind used in manufacturing, compounding, or mixing soft drinks, sold or used by the manufacturer, producer, or importer, a tax of 6 cents per gallon.

"(2) EXEMPT SALES.—No tax shall be imposed under this subsection with respect to the sale of such syrups where it is established to the satisfaction of the Commissioner that such syrups are sold (A) to a bottler for use in the preparation of bottled soft drinks, or (B) to a person, who does not engage in the preparation of soft drinks, for consumption by him in some use other than the preparation of soft drinks.

"(3) EXEMPT USES.—No tax shall be imposed under this subsection with respect to—

"(A) The use of such syrups by the manu-

facturer, producer, or importer in the preparation of bottled soft drinks; or

"(B) The consumption of such syrups by the manufacturer, producer, or importer, who is not engaged in the preparation of soft drinks, in some use other than the preparation of soft drinks.

"(d) CARBONIC ACID GAS.—

"(1) IMPOSITION OF TAX.—There shall be imposed upon carbonic acid gas in gaseous, liquid, or solid form, suitable for use in the preparation of soft drinks, sold by the manufacturer, producer, or importer, or by a dealer in such gas, to any person who sells soft drinks otherwise than in bottles, a tax of 4 cents per pound.

"(2) EXEMPT SALES.—No tax shall be imposed under this subsection with respect to the sale of carbonic acid gas where it is established to the satisfaction of the Commissioner that—

"(A) Such gas is sold for use by the vendee in the preparation of bottled soft drinks, or for consumption by him in some use other than the preparation of soft drinks; or

"(B) Such gas is sold for resale by the vendee in the course of his regular business as a dealer in carbonic acid gas, if such gas is in due course so resold.

~~"(e) INAPPLICABILITY OF PROVISIONS.—The provisions of section 3442 (1) and (2), section 3443 (a) (1), and section 3444, shall not be applicable to the taxes imposed by this section.~~

~~"(f) EFFECTIVE DATE.—This section shall take effect on the effective date of Part V of Title V of the Revenue Act of 1941."~~

SEC. ~~552~~ *551*. NEW MANUFACTURERS' EXCISE TAXES.

Subchapter A of Chapter 29 of the Internal Revenue Code is amended by inserting after section 3405 the following new section:

"SEC. 3406. EXCISE TAXES IMPOSED BY THE REVENUE ACT OF 1941.

"(a) IMPOSITION.—There shall be imposed on the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to the rate, on the price for which sold, set forth in the following paragraphs (including in each case parts or accessories of such articles sold on or in connection therewith, or with the sale thereof):

"(1) SPORTING GOODS.—Badminton nets; badminton rackets (measuring 22 inches over-all or more in length); badminton racket frames (measuring 22 inches over-all or more in length); badminton racket string; badminton shuttlecocks, badminton standards; baseballs; baseball bats (measuring 26 inches or more in

length) ; baseball body protectors and shin guards; baseball gloves and mitts; baseball masks; basketballs; billiard and pool tables (measuring 45 inches over-all or more in length) ; billiard and pool balls and cues for such tables; bowling balls and pins; boxing gloves, masks, head guards, and ear guards; clay pigeons; cricket balls; cricket bats; croquet balls and mallets; curling stones; deck tennis rings, nets, and posts; fencing equipment; fishing rods, creels, ~~reels, and artificial~~ lures, ~~baits, and flies~~ *and reels*; footballs; football harness; football helmets; golf bags (measuring 26 inches or more in length) ; golf balls; golf clubs (measuring 30 inches or more in length) ; gymnasium equipment and apparatus; hockey balls; hockey pucks; hockey sticks (measuring 30 inches or more in length) ; indoor baseballs; indoor baseball bats (measuring 26 inches or more in length) ; indoor baseball gloves and mitts; lacrosse balls; lacrosse sticks; mass balls; polo balls; polo mallets; push balls; skates; skis; ski poles; snow shoes; snow toboggans and sleds; soccer balls; softball balls; softball bats (measuring 26 inches or more in length) ; softball gloves and mitts; squash balls; squash rackets (measuring 22 inches over-all or more in length) ; squash racket frames (measuring 22 inches over-all or more in length) ; squash racket string; tennis balls; table tennis tables, balls, nets, and paddles;

tennis nets; tennis rackets (measuring 22 inches over-all or more in length); tennis racket frames (measuring 22 inches over-all or more in length); tennis racket string; track hurdles; traps for throwing clay pigeons; vaulting poles, cross bars, and standards; volley balls, nets, and standards; water polo balls and goals; and wrestling head harness; 10 per centum.

"(2) LUGGAGE.—Trunks, valises, traveling bags, suitcases, hat boxes for use by travelers, fitted toilet cases (not including contents), and other traveler's luggage, and leather and imitation leather brief cases, 10 per centum.

"(3) ELECTRIC, *GAS, AND OIL* APPLIANCES.—Electric direct motor-driven fans and air circulators; electric ~~storage~~, *gas, or oil* water heaters; electric flat irons; electric air heaters (not including furnaces); electric immersion heaters; electric heating pads and blankets; electric, *gas, or oil* appliances of the type used for cooking, warming, or keeping warm food or beverages for consumption on the premises; electric mixers, whippers, and juicers; and household type electric vacuum cleaners; 10 per centum.

"(4) PHOTOGRAPHIC APPARATUS.—Cameras and lenses; unexposed photographic films (including motion picture films but not including X-Ray film), photo-

graphic plates and sensitized paper; photographic apparatus and equipment; and any apparatus or equipment designed especially for use in the taking of photographs or motion pictures or in the developing, printing, or enlarging of photographs or motion picture films; 10 per centum.

"(5) ELECTRIC SIGNS.—Neon-tube signs, electric signs, and electric advertising devices, 10 per centum.

"(6) BUSINESS AND STORE MACHINES.—Adding machines, addressing machines, autographic registers, bank proof machines, billing machines, bookkeeping machines, calculating machines, card punching machines, cash registers, change making machines, check writing machines, check signing machines, check cancelling machines, check perforating machines, check cutting machines, check dating machines, other check protector machine devices, ~~comptometers,~~ computing machines, coin counters, dictographs, ~~dictaphones,~~ ~~dictaphone~~ *dictating machine* record shaving machines, dictating machines, duplicating machines, embossing machines, envelope opening machines, erasing machines, folding machines, fanfold machines, fare registers, fare boxes, listing machines, line-a-time and similar machines, mailing machines, multigraph machines, multigraph typesetting machines, multigraph type justifying machines, numbering ma-

chines, portable paper fastening machines, pay roll machines, pencil sharpeners, postal permit mailing machines, punch card machines, sorting machines, stencil cutting machines, shorthand writing machines, sealing machines, tabulating machines, ticket counting machines, ticket issuing machines, typewriters, transcribing machines, time recording devices, and combinations of any of the foregoing, 10 per centum.

"(7) RUBBER ARTICLES.—Articles of which rubber is the component material of chief weight, 10 per centum. The tax imposed under this paragraph shall not be applicable to footwear, articles designed especially for hospital or surgical use, or articles taxable under any other provision of this Chapter.

"(8) WASHING MACHINES.—Washing machines ~~of the kind used in commercial laundries, 10 per centum. No tax shall be imposed under this paragraph on washing machines of the household type~~, *10 per centum.*

"(9) OPTICAL EQUIPMENT.—Refractometers; spectrometers; spectroscopes; colorimeters; polariscopes; optical measuring instruments; telescopic sights; projection lenses and prisms; optical machinery; microscopes; telescopes; photo-micro and micro-projection apparatus; fire control optical instruments; and searchlight mirrors and reflectors; 10 per centum.

"*(10) Electric light bulbs.—Electric light bulbs, 10 per centum.*

"(b) Exemption if Article Taxable as Jewelry.—No tax shall be imposed under this section on any article taxable under section 2400 (relating to jewelry tax).

"(c) Effective Date.—This section shall take effect on the effective date of Part V of Title V of the Revenue Act of 1941."

SEC. ~~553~~ *552.* NEW RETAILERS' EXCISE TAXES.

(a) Imposition of Tax.—The Internal Revenue Code is amended by adding after Chapter 18 the following new chapter:

"CHAPTER 19—RETAILERS' EXCISE TAXES

"SEC. 2400. TAX ON JEWELRY, ETC.

"There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 per centum of the price for which so sold: All articles commonly or commercially known as jewelry, whether real or imitation; pearls, precious and semi-precious stones, and imitations thereof; articles made of, or ornamented, mounted or fitted with, precious metals or imitations thereof; watches and clocks and cases and movements therefor; gold, gold-plated, silver, silver-plated or sterling flatware or hollow ware; opera glasses; lorgnettes; marine glasses; field glasses; and binoculars. The tax imposed by this section shall not apply to any article used for

religious purposes, to surgical instruments, ~~or~~ to frames or mountings for spectacles or eyeglasses, *or to a fountain pen if the only part of the pen which consists of precious metals is the point.*

"SEC. 2401. TAX ON FURS.

"There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 per centum of the price for which so sold: Articles made of fur on the hide or pelt, and articles of which such fur is the component material of chief value.

"SEC. 2402. TAX ON TOILET PREPARATIONS.

"(a) TAX.—There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 per centum of the price for which so sold: Perfumes, essences, extracts, toilet waters, cosmetics, petroleum jellies, hair oils, pomades, hair dressings, hair restoratives, hair dyes, aromatic cachous, toilet powders, and any similar substance, article, or preparation, by whatsoever name known or distinguished; any of the above which are used or applied or intended to be used or applied for toilet purposes.

"(b) BEAUTY PARLORS, ETC.—For the purposes of subsection (a), if any person operating a barber shop, beauty parlor, or similar establishment, uses any article described in subsection (a) in the treatment of any customer or patron, the total amount so used during any month

shall be considered as sold at retail by such person during such month, and the fair retail price of such amount, as determined by the Commissioner, shall be considered to be the price at which so sold.

"SEC. 2403. RETURN AND PAYMENT OF RETAILERS' EXCISE TAXES.

"(a) Every person who sells at retail any article taxable under this chapter shall make monthly returns under oath in duplicate and pay the taxes imposed by this chapter to the collector for the district in which is located his principal place of business or, if he has no principal place of business in the United States, then to the collector at Baltimore, Maryland. Such returns shall contain such information and be made at such times and in such manner as the Commissioner, with the approval of the Secretary, may by regulations prescribe.

"(b) The tax shall, without assessment by the Commissioner or notice from the collector, be due and payable to the collector at the time so fixed for filing the return. If the tax is not paid when due, there shall be added as part of the tax interest at the rate of 6 per centum per annum from the time when the tax became due until paid.

"(c) In determining, for the purposes of this chapter, the price for which an article is sold, there shall be included any charge for coverings and containers of whatever nature,

and any charge incident to placing the article in condition packed ready for shipment, but there shall be excluded the amount of tax imposed by this chapter, whether or not stated as a separate charge. A transportation, delivery, insurance, installation, or other charge (not required by the foregoing sentence to be included) shall be excluded from the price only if the amount thereof is established to the satisfaction of the Commissioner, in accordance with the regulations. There shall also be excluded, if stated as a separate charge, the amount of any retail sales tax imposed by any State or Territory or political subdivision of the foregoing, or the District of Columbia, whether the liability for such tax is imposed on the vendor or the vendee.

"SEC. 2404. DEFINITION OF SALE.

"For the purposes of this chapter, the lease of an article shall be considered the sale of such article.

"SEC. 2405. LEASES, CONDITIONAL SALES, ETC.

"In the case of (a) a lease, (b) a contract for the sale of an article wherein it is provided that the price shall be paid by installments and title to the article sold does not pass until a future date notwithstanding partial payment by installments, or (c) a conditional sale, there shall be paid upon each payment with respect to the article that portion of the total tax which is proportionate to the portion of the total amount to be paid represented by such payment. No tax

shall be imposed under this chapter on the sale of any article taxable under section 2400 or section 2401 if with respect to such article the lease, contract for sale, or conditional sale was made, delivery thereunder was made, and a part of the consideration was paid, before ~~July 1, 1941~~ *the effective date of Part V of the Revenue Act of 1941.*

"SEC. 2406. TAX-FREE SALES.

"Under regulations prescribed by the Commissioner with the approval of the Secretary, no tax under this chapter shall be imposed with respect to the sale of any article—

"(a) for the exclusive use of the United States, any State, Territory of the United States, or any political subdivision of the foregoing, or the District of Columbia;

"(b) for export, or for shipment to a possession of the United States, and in due course so exported or shipped.

"SEC. 2407. CREDITS AND REFUNDS.

"(a) A credit against tax under this chapter, or a refund, may be allowed with respect to an article, when the price on which the tax was based is readjusted by reason of return or repossession of the article, or by a bona fide discount, rebate, or allowance, in the amount of that part of the tax proportionate to the part of the price which is refunded or credited.

"(b) No overpayment of tax under this chapter shall be

credited or refunded, in pursuance of a court decision or otherwise, unless the person who paid the tax establishes, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, (1) that he has not included the tax in the price of the article with respect to which it was imposed, or collected the amount of tax from the purchaser, or (2) that he has repaid the amount of the tax to the purchaser of the article, or unless he files with the Commissioner written consent of such purchaser to the allowance of the credit or refund.

"(c) There shall be credited against the tax payable under subsection (b) of section 2402 the amount of tax paid by any person under subsection (a) of such section with respect to any article subject to tax under subsection (b) of such section.

"SEC. 2408. APPLICABILITY OF ADMINISTRATIVE PROVISIONS.

"All provisions of law (including penalties) applicable in respect of the taxes imposed by section 2700 shall, insofar as applicable and not inconsistent with this chapter, be applicable in respect of the taxes imposed by this chapter.

"SEC. 2409. PENALTY FOR REPRESENTATION THAT TAX IS NOT PASSED ON.

"Whoever in connection with the sale or lease, or offer for sale or lease, of any article taxable under this chapter,

makes any statement, writen or oral, in advertisement or otherwise, intended or calculated to lead any person to believe that the price of the article does not include the tax imposed by this chapter, shall on conviction thereof be punished by a fine of not more than $1,000.

"SEC. ~~2409~~ *2410.* RULES AND REGULATIONS.

"The Commissioner, with the approval of the Secretary, shall prescribe and publish all needful rules and regulations for the enforcement of this chapter.

"SEC. ~~2410~~ *2411.* EFFECTIVE DATE.

"This chapter shall be effective on and after the effective date of Part V of Title V of the Revenue Act of 1941."

(b) TERMINATION OF MANUFACTURERS' TAX ON TOILET PREPARATIONS.—The tax imposed by section 3401 of the Internal Revenue Code shall not apply to articles sold on or after the effective date of this Part.

SEC. 553. ADMINISTRATIVE CHANGES IN MANUFACTURERS' EXCISE TAX TITLE OF CODE.

(a) LEASES.—Section 3440 of the Internal Revenue Code is amended to read as follows:

"SEC. 3440. DEFINITION OF SALE.

"For the purposes of this chapter the lease of an article (including any renewal or any extension of a lease or any subsequent lease of such article) by the manufacturer, pro-

ducer, or importer shall be considered a taxable sale of such article."

(b) EXISTING CONTRACTS.—Chapter 29 of the Internal Revenue Code is amended by adding at the end thereof the following new section:

"SEC. 3453. EXISTING CONTRACTS.

"(a) TAX PAYABLE BY VENDEE.—If (1) any person has, prior to the effective date of Part V of Title V of the Revenue Act of 1941, made a bona fide contract for the sale on or after such date, of any article with respect to the sale of which a tax is imposed by that Act or an existing rate of tax is increased by that Act, and (2) such contract does not permit the adding to the amount to be paid under such contract of the whole of such tax or increased rate of tax, then (unless the contract prohibits such addition) the vendee shall, in lieu of the vendor, pay so much of the tax as is not so permitted to be added to the contract price.

"(b) TAX PAID TO VENDOR.—Taxes payable by the vendee shall be paid to the vendor at the time the sale is consummated, and shall be collected and paid to the United States by the vendor in the same manner as provided in section 3467. In case of failure or refusal by the vendee to pay such taxes to the vendor, the vendor shall report the facts to the Commissioner who shall cause collection of such taxes to be made from the vendee."

(c) UNEXPOSED MOTION PICTURE FILMS.—Section 3443 (a) (3) (A) of the Internal Revenue Code (relating to credits or refunds of tax to manufacturer) is amended by inserting at the end thereof the following new clause:

"(v) in the case of unexposed motion picture films, used or resold for use in the making of news reel motion picture films."

SEC. 554. TRANSPORTATION OF PERSONS, ETC.

(a) The heading of Subchapter C is amended to read as follows: **"SUBCHAPTER D—ADMINISTRATIVE PROVISIONS".**

(b) Chapter 30 of the Internal Revenue Code is amended by inserting after section 3468 the following new subchapter:

"SUBCHAPTER C—TRANSPORTATION OF PERSONS

"SEC. 3469. TAX ON TRANSPORTATION OF PERSONS, ETC.

"(a) TRANSPORTATION.—There shall be imposed upon the amount paid within the United States, on or after the effective date of Part V of Title V of the Revenue Act of 1941, for the transportation, on or after such effective date, of persons by rail, motor vehicle, water, or air, within or without the United States, a tax equal to 5 per centum of the amount so paid. Such tax shall apply to transportation by motor vehicles having a passenger seating capacity of less than 10 adult passengers, including the driver, only when such vehicle is operated on an established line.

"(b) EXEMPTION OF CERTAIN TRIPS.—The tax imposed by subsection (a) shall not apply to amounts paid for transportation which do not exceed 35 cents, to amounts paid for commutation or season tickets for single trips of less than thirty miles, or to amounts paid for commutation tickets for one month or less.

"(c) SEATS, BERTHS, ETC.—There shall be imposed upon the amount paid within the United States for seating or sleeping accommodations in connection with transportation with respect to which a tax is imposed by subsection (a) a tax equivalent to 5 per centum of the amount so paid.

"(d) RETURNS AND PAYMENT.—The taxes imposed by this section shall be paid by the person making the payment subject to the tax. Each person receiving any payment specified in subsection (a) or (c) shall collect the amount of the tax imposed from the person making such payment, and shall, on or before the last day of each month, make a return, under oath, for the preceding month, and pay the taxes so collected to the collector in the district in which his principal place of business is located, or if he has no principal place of business in the United States, to the collector at Baltimore, Maryland. Such returns shall contain such information and be made in such manner as the Commissioner

with the approval of the Secretary may by regulations prescribe.

"(e) EXTENSIONS OF TIME.—The Commissioner may extend the time for making returns and paying the taxes collected, under such rules and regulations as he shall prescribe with the approval of the Secretary, but no such extension shall be for more than ninety days.

"(f) ~~GOVERNMENTAL EXEMPTION.~~—*EXEMPTIONS.*—

"*(1) GOVERNMENTAL EXEMPTION.*—The tax imposed by this section shall not apply to the payment for transportation or facilities furnished to the United States, or to any State or Territory, or political subdivision thereof, or the District of Columbia."

"*(2) EXEMPTION OF MEMBERS OF MILITARY AND NAVAL SERVICE.—The tax imposed by this section shall not apply to the payment for transportation or facilities furnished under special tariffs providing for fares of not more than 1¼ cents per mile applicable to round trip tickets sold to personnel of the United States Army, Navy, Marine Corps, and Coast Guard traveling in uniform of the United States at their own expense when on official leave, furlough, or pass, including authorized cadets and midshipmen, issued on presentation of properly executed certificate.*"

(c) STAMP TAX ON PASSAGE TICKETS NOT TO APPLY.—No tax shall be imposed under Chapter 11 of the Internal Revenue Code on a ticket sold or issued for passage the amount paid for which is taxable under section 3469 of the Internal Revenue Code.

(d) TECHNICAL AMENDMENTS.—

(1) Section 55 (a) (2) of the Internal Revenue Code is amended by striking out "subchapters A and B of".

(2) Section 3471 (a) and (c) are amended by inserting after "subchapter B" wherever occurring therein "or subchapter C".

(3) Section 3472 of the Internal Revenue Code is amended by striking out "of subchapters A and B".

SEC. 555. COIN-OPERATED AMUSEMENT AND GAMING DEVICES.

Subchapter A of Chapter 27 of the Internal Revenue Code is amended by adding at the end thereof the following new Part:

"Part IX—Coin-Operated Amusement and Gaming Devices

"SEC. 3267. TAX ON COIN-OPERATED AMUSEMENT AND GAMING DEVICES.

"(a) RATE.—Every person who maintains for use or permits the use of, on any place or premises occupied by him, a coin-operated amusement or gaming device shall pay a special

~~tax of $25 per year in respect of such device, and shall pay an additional special tax of $25 per year for each additional such device so maintained or the use of which is so permitted.~~ *tax as follows:*

"(1) $10 per year in the case of a device defined in clause (1) of subsection (b);

"(2) $200 per year, in the case of a device defined in clause (2) of subsection (b); and

"(3) $10 or $200, as the case may be, for each additional device so maintained or the use of which is so permitted. If one such device is replaced by another, such other device shall not be considered an additional device.

"(b) DEFINITION.—As used in this Part, the term 'coin-operated amusement and gaming devices' means (1) so-called 'pin-ball' and other similar amusement machines, operated by means of the insertion of a coin, token, or similar object, and (2) so-called 'slot' machines which operate by means of insertion of a coin, token, or similar object and which, by application of the element of chance, may deliver, or entitle the person playing or operating the machine to receive, cash, premiums, merchandise, or tokens. The term does not include bona fide vending machines in which are not incorporated gaming or amusement features.

"(c) APPLICABILITY OF ADMINISTRATIVE PROVISIONS.—An operator of a place or premises who maintains for

use or permits the use of any coin-operated device shall be considered, for the purposes of Subchapter B, to be engaged in a trade or business in respect of each such device.

"(d) EFFECTIVE DATE OF TAX.—With respect to the year ending June 30, 1942, no tax shall be payable under this Part for any period prior to the effective date of Part V of Title V of the Revenue Act of 1941."

SEC. 556. BOWLING ALLEYS, ETC.

Subchapter A of Chapter 27 of the Internal Revenue Code is amended by adding at the end thereof the following new Part:

"Part X—Bowling Alleys, and Billiard and Pool Tables

"SEC. 3268. TAX ON BOWLING ALLEYS, AND BILLIARD AND POOL TABLES.

"(a) RATE.—Every person who operates a bowling alley, billiard room, or pool room shall pay a special tax of ~~$15~~ *$10* per year for each bowling alley, billiard table, or pool table. Every building or place where bowls are thrown or where games of billiards or pool are played, except in private homes, shall be regarded as a bowling alley, billiard room, or pool room, respectively.

"(b) EFFECTIVE DATE OF TAX.—With respect to the year ending June 30, 1942, no tax shall be payable under this Part for any period prior to the effective date of Part V of Title V of the Revenue Act of 1941."

SEC. 557. OUTDOOR ADVERTISING.

Subchapter A of Chapter 27 of the Internal Revenue Code is amended by adding at the end thereof the following new Part:

"Part XI—Outdoor Advertising

"SEC. 3269. TAX ON OUTDOOR ADVERTISING.

"(a) TAX.—Every person who engages in business as a lessor of billboards for outdoor advertising shall pay with respect to each billboard maintained or controlled by him for use in such business a special tax at the following rates:

"Tax Classification "For each billboard having an advertising space area of:	Per Annum
"(1) Not more than 100 square feet	$1.00
"(2) More than 100 and not more than 200 square feet	2.00
"(3) More than 200 and not more than 300 square feet	3.00
"(4) More than 300 and not more than 400 square feet	5.00
"(5) More than 400 and not more than 600 square feet	8.00
"(6) More than 600 square feet	11.00

"(b) ADDITIONAL BILLBOARDS.—Where a person has paid the special tax with respect to each of a number of billboards of the same tax classification and thereafter discontinues the maintenance or control of one or more, and also assumes the maintenance or control of additional billboards of the same tax classification, he shall pay special tax only with respect to so many of such additional billboards as exceed the number with respect to which he has already paid special tax.

"(c) DEFINITIONS.—As used in this section—

"(1) The term 'billboard' means any outdoor structure or device primarily designed for the display of advertising matter, and includes so called 'sign space' on the exterior of a building the use of which is controlled by a person engaged in business as lessor of billboards for outdoor advertising.

"(2) The term 'lessor' means any person who maintains or controls the use of billboards and, for compensation, displays advertising matter thereon for another person or permits the display of advertising matter thereon by another person.

"(d) PENALTIES.—Any person liable for the special tax under this section with respect to any billboard maintained or controlled by him who fails to pay such tax, besides being liable for the payment of the tax, shall be fined not more than $50 for each offense.

"(e) OTHER LAWS APPLICABLE.—All administrative and penalty provisions of subchapters A, B, and C of Chapter 11, insofar as applicable, shall apply to the special tax imposed by subsection (a) and to the persons upon whom imposed.

"(f) EFFECTIVE DATE OF TAX.—With respect to the year ending June 30, 1942, no tax shall be payable under this Part for any period prior to the effective date of Part V of Title V of the Revenue Act of 1941."

SEC. ~~558~~ 557. USE OF MOTOR VEHICLES AND BOATS.

The Internal Revenue Code is amended by inserting after Chapter 33 the following new chapter:

"CHAPTER 33A—USE OF MOTOR VEHICLES AND BOATS

"SEC. 3540. TAX ON USE OF MOTOR VEHICLES AND BOATS.

"(a) IMPOSITION OF TAX.—There shall be imposed upon the use of motor vehicles and boats a tax, with respect to each year in which such use occurs, at the following rates:

"(1) Motor vehicles—$5.

"(2) BOATS.—

"Over-all length 16 feet or over but not over 28 feet, $5.

"Over-all length over 28 feet but not over 50 feet, $10.

"Over-all length over 50 feet but not over 100 feet, $40.

"Over-all length over 100 feet but not over 150 feet, $100.

"Over-all length over 150 feet but not over 200 feet, $150.

"Over-all length over 200 feet, $200.

Such tax, in the case of a motor vehicle, shall be paid by the person in whose name the motor vehicle is, or is required to

be, registered under the law of the State, Territory, or the District of Columbia in which such motor vehicle is, or is required to be, registered. Such tax, in the case of a boat, shall be paid by the owner of the boat. The tax imposed by this section shall not apply to any use before February 1, 1942, and use before such date shall not be considered to be use within the meaning of this section.

"(b) DEFINITIONS.—For the purposes of this section—

"(1) The term 'year' means the year beginning July 1.

"(2) The term 'motor vehicle' means all motor vehicles of the kind chiefly used for highway transportation.

"(3) The term 'boat' means all boats propelled by machinery, sail, or both, measuring 16 feet or more in over-all length, owned by a citizen or resident of the United States. Such term does not include boats used ~~exclusively~~ *chiefly* for trade, or commercial fishing, or boats used without profit by any benevolent, charitable, or religious organization exclusively for furnishing aid, comfort, or relief to seamen, *or boats used by the sea scouts department of the Boy Scouts of America chiefly for training scouts in seamanship.*

"(4) The term 'use' in the case of the use of a motor vehicle means use on the public highways.

"(c) PRORATION OF TAX.—If in any year the first use of the motor vehicle or boat is after July 31 the tax shall be

reckoned proportionately from the first day of the month in which such use occurs to and including the 30th day of June following.

"(d) ONE PAYMENT PER YEAR.—If the tax imposed by this section is paid with respect to any motor vehicle or boat for any year no further tax shall be imposed for such year with respect to such motor vehicle or boat.

"(e) EVIDENCE OF TAX PAYMENT.—The payment of the tax imposed by this section shall be evidenced by such suitable stamp, sticker, or tag of such form, which shall be affixed to the motor vehicle or boat in such manner, as the Commissioner, with the approval of the Secretary, may by regulations prescribe.

"(f) MANNER OF COLLECTION.—The place, time, and manner of making payment of the tax, and of furnishing such stamp, sticker, or tag shall be such as may be provided in regulations prescribed by the Commissioner with the approval of the Secretary.

"(g) COOPERATION OF POST OFFICE DEPARTMENT.—The Commissioner shall furnish to the Postmaster General without prepayment a suitable quantity of stamps, stickers, or tags to be distributed to and kept on sale by postmasters in the United States. The Postmaster General may require each such postmaster to give additional or increased bond as postmaster for the value of the stamps, stickers, or tags furnished to him, and each such postmaster

shall deposit the receipts from the sale of such stamps, stickers, or tags to the credit of and render accounts to the Postmaster General at such times and in such form as he may by regulations prescribe. The Postmaster General shall at least once monthly transfer all collections from this source to the Treasury as internal-revenue collections. The Postmaster General is authorized to cooperate to the fullest extent possible with the Commissioner in the sale of such stamps, stickers, or tags and in forwarding to the Commissioner or to the collector of internal revenue such blanks or forms as the Commissioner may determine necessary to the collection of the tax.

"(h) SALE OF STAMPS BY PRIVATE PERSONS.—If the Commissioner provides for the sale of stamps, stickers, or tags by persons not officers or employees of the United States he may require bond, with sufficient sureties, in a sum to be fixed by the Commissioner, conditioned for the faithful return, whenever required, of all quantities or amounts undisposed of, and for the payment for, all quantities or amounts sold or not remaining on hand. The Commissioner, with the approval of the Secretary, may from time to time make such regulations as he may find necessary to insure the safekeeping or prevention of illegal use of all such stamps, stickers, or tags.

"(i) PENALTIES FOR UNLAWFUL USE.—Any person

liable for the tax under this section who uses or permits the use of the motor vehicle or boat before tax has been paid shall be guilty of a misdemeanor and upon conviction thereof shall be fined not more than $25 or imprisoned for not more than 30 days, or both. Any person who uses or operates a motor vehicle or boat at a time when the stamp, sticker, or tag does not appear on the motor vehicle or boat in the manner provided in the regulations prescribed under subsection (e) or (f) shall be guilty of a misdemeanor and upon conviction thereof shall be fined not more than $25.

"(j) EXEMPT USES.—The tax imposed by this section shall not apply to the use of a motor vehicle or boat by the United States, a State, Territory, the District of Columbia, or a political subdivision of any of the foregoing."

SEC. ~~559.~~ *558.* EFFECTIVE DATE OF PART V.

This Part shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this Act.

Part VI—Processing Tax on Certain Oils

SEC. 561. PAYMENT OF PROCEEDS OF PROCESSING TAX TO GUAM AND AMERICAN SAMOA.

(a) PAYMENT TO POSSESSIONS.—Chapter 21 of the Internal Revenue Code (relating to processing tax on oils) is amended by adding at the end thereof the following new section:

"SEC. 2483. All taxes collected under this chapter with respect to coconut oil wholly of the production of Guam or American Samoa or produced from materials wholly of the growth or production of Guam or American Samoa, shall be held as separate funds and paid to the Treasury of Guam or American Samoa, respectively. No part of the money from such funds shall be used, directly or indirectly, to pay a subsidy to the producers or processors of copra, coconut oil, or allied products, except that this sentence shall not be construed as prohibiting the use of such money, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, for the acquisition or construction of facilities for the better curing of copra or for bona fide loans to copra producers of Guam or American Samoa."

(b) EFFECTIVE DATE OF AMENDMENT.—The amendment made by this section shall be applicable only with respect to taxes collected after the date of enactment of this Act.

~~**TITLE VI—RADIO BROADCASTING AND NETWORK TAX**~~

~~**SEC. 601. TAX ON RADIO BROADCASTING STATIONS AND NETWORKS.**~~

~~Subtitle B of the Internal Revenue Code is amended by inserting after chapter 6 the following new chapter:~~

"CHAPTER 6A

"SEC. 1220. TAX ON RADIO BROADCASTING STATIONS AND NETWORKS.

"(a) RATE.—For each calendar year beginning after December 31, 1941, there shall be imposed upon every person with respect to operating a radio broadcasting station or engaging in network broadcasting for any part of such year, an excise tax computed as follows:

"(1) If the net time sales exceed $100,000 and do not exceed $500,000, an amount equal to 5 per centum of the net time sales, or an amount equal to the net time sales in excess of $100,000, whichever is the lesser.

"(2) If the net time sales exceed $500,000 and do not exceed $1,000,000, an amount equal to 10 per centum of the net time sales, or an amount equal to $25,000 plus the amount of the net time sales in excess of $500,000, whichever is the lesser.

"(3) If the net time sales exceed $1,000,000, an amount equal to 15 per centum of the net time sales, or an amount equal to $100,000 plus the amount of the net time sales in excess of $1,000,000, whichever is the lesser.

"(b) DEFINITIONS.—For the purposes of this section—

"(1) 'Network broadcasting' means the making of arrangements with persons operating radio broadcasting stations for the simultaneous broadcast of an identical program by two or more connected stations and the distribution of programs by wire or radio to such persons.

"(2) 'Time sales' means the gross amount received or accrued from the sale of broadcast time. Where the sale is for a consideration other than money the gross amount considered to be received or accrued shall be the seller's published card rate for broadcast time. Where the sale is for a consideration, less a commission to an advertising agency (whether such sale is made to such agency or its principal) the amount of such commission (not in excess of 15 per centum of such consideration) shall be excluded in determining the gross amount received or accrued with respect to such sale.

"(3) 'Net time sales' means time sales minus the amounts paid or incurred for broadcast time to other persons operating radio stations or engaged in network broadcasting.

"SEC. 1221. RETURNS.

"(a) REQUIREMENT.—Every person liable for tax under section 1220 shall make a return under oath. Such return shall contain such information and be made in such manner as the Commissioner with the approval of the Secretary may by regulations prescribe.

"(b) TIME FOR FILING.—

"(1) GENERAL RULE.—Such return shall be made within two months after the close of the year with respect to which such tax is imposed.

"(2) EXTENSION OF TIME.—The Commissioner may extend the time for making the returns, under such rules and regulations as he may prescribe with the approval of the Secretary, but no such extension shall be for more than sixty days.

"(c) PLACE FOR FILING.—The return shall be made to the collector for the district in which is located the principal place of business of the taxpayer, or, if it has no principal place of business in the United States, then to the collector at Baltimore, Maryland.

"SEC. 1222. OTHER LAWS APPLICABLE.

"All provisions of law (including penalties) applicable in respect of the taxes imposed by chapter 6 shall, insofar as

~~not inconsistent with this chapter, be applicable in respect of the tax imposed by this chapter."~~

TITLE VI—NONESSENTIAL FEDERAL EXPENDITURES

SEC. 601. NONESSENTIAL FEDERAL EXPENDITURES.

(a) There is hereby established a committee to investigate nonessential Federal expenditures (hereinafter referred to as the "committee"), to be composed of (1) three members of the Senate Committee on Finance and three members of the Senate Committee on Appropriations, to be appointed by the President of the Senate; (2) three members of the House Committee on Ways and Means and three members of the House Committee on Appropriations, to be appointed by the Speaker of the House of Representatives; and (3) the Secretary of the Treasury, and the Director of the Bureau of the Budget. A vacancy in the committee shall not affect the power of the remaining members to execute the functions of the committee, and shall be filled in the same manner as the original selection. A majority of the committee shall constitute a quorum, and the powers conferred upon them by this section may be exercised by a majority vote.

(b) It shall be the duty of the committee to make a full and complete study and investigation of all expenditures of the Federal Government with a view to recommending the elimination or reduction of all such expenditures deemed by the com-

mittee to be nonessential. The committee shall report to the President and to the Congress the results of its study, together with its recommendations, at the earliest practicable date.

(c) The committee, or any duly authorized subcommittee thereof, is authorized to hold such hearings, to sit and act at such times and places, to employ such experts and such clerical and other assistants, to require by subpena or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, to take such testimony, and to make such expenditures, as it deems advisable. The provisions of sections 102 to 104, inclusive, of the Revised Statutes shall apply in case of any failure of any witness to comply with any subpena, or to testify when summoned under the authority of this section.

(d) The committee is authorized to utilize the services, information, facilities, and personnel of the departments and agencies of the Government.

(e) There is hereby authorized to be appropriated, the sum of $10,000, or so much thereof as may be necessary, to carry out the provisions of this section.

(f) All authority conferred by this section shall terminate upon the submission of the committee's final report.

SEC. 602. Section 1303 of the Revenue Act of 1918, as amended, is amended by striking out "President of the Senate" wherever it appears therein and inserting in lieu thereof "President pro tempore of the Senate."

TITLE VI—CREDIT AGAINST FEDERAL UNEMPLOYMENT TAXES

SEC. 701. CREDIT AGAINST FEDERAL UNEMPLOYMENT TAXES.

(a) ALLOWANCE OF CREDIT AGAINST TAX FOR 1936, 1937, AND 1938.—Against the tax imposed by section 901 of the Social Security Act for the calendar year 1936, 1937, or 1938, any taxpayer shall be allowed credit (if credit is not allowable under section 902 of such Act) for the amount of contributions paid by him into an unemployment fund under a State law—

(1) Before the sixtieth day after the date of the enactment of this Act, if such credit is claimed before the expiration of six months after such date of enactment;

(2) Without regard to the date of payment, with respect to wages paid after September 19, 1939;

(3) Without regard to the date of payment, if the assets of the taxpayer are, at any time during the fifty-nine-day period following such date of enactment, or were at any time during the period August 11, 1939, to October 8, 1939, inclusive, or the period October 9, 1940, to December 6, 1940, inclusive, in the custody or control of a receiver, trustee, or other fiduciary appointed by, or under the control of, a court of competent jurisdiction.

The provisions of the Social Security Act in force prior to February 11, 1939 (except the provision limiting the credit

to amounts paid before the date of filing returns), shall apply to allowance of credit under this subsection; except that the amount of credit against the tax for the calendar year 1936, 1937, or 1938, for contributions paid after December 6, 1940, shall not (unless the credit is allowable on account of paragraph (2) or (3)) exceed 90 per centum of the amount which would have been allowable as credit on account of such contributions had they been paid before the last day upon which the taxpayer was required under section 905 of such Act to file a return for such year. The terms used in this subsection shall have the same meaning as when used in title IX of such Act prior to February 11, 1939. The total credit allowable against the tax imposed by section 901 of such Act for the calendar year 1936, 1937, or 1938 shall not exceed 90 per centum of such tax.

(b) ALLOWANCE OF CREDIT AGAINST TAX FOR 1939 AND 1940.—Against the tax imposed by the Federal Unemployment Tax Act for the calendar year 1939 or 1940, any taxpayer shall be allowed credit (if credit is not allowable under section 1601 of such Act) for the amount of contributions paid by him into an unemployment fund under a State law—

(1) Before the sixtieth day after the date of the enactment of this Act, if such credit is claimed before the expiration of six months after such date of enactment;

(2) Without regard to the date of payment, if the assets of the taxpayer are, at any time during the fifty-nine-day period following such date of enactment, or were at any time during the period from the last day upon which the taxpayer was required under section 1604 of the Federal Unemployment Tax Act to file a return of the tax against which credit is claimed to June 30 next following such last day, inclusive, or (in the case of credit against the tax for the calendar year 1939) the period October 9, 1940, to December 6, 1940, inclusive, in the custody or control of a receiver, trustee, or other fiduciary appointed by, or under the control of, a court of competent jurisdiction.

The provisions of the Federal Unemployment Tax Act (except section 1601 (a) (3)), including such provisions as modified by section 902 (e) of the Social Security Act Amendments of 1939, shall apply to allowance of credit under this subsection. The amount of such credit against the tax for the calendar year 1939 or 1940, in the case of contributions paid after the last day upon which the taxpayer was required under section 1604 of the Federal Unemployment Tax Act to file a return for such year, shall not (unless the credit is allowable on account of paragraph (2)) exceed 90 per centum of the amount which would have been allowable as credit on account of such contributions had they been paid on or

before such last day. The terms used in this subsection shall have the same meaning as when used in the Federal Unemployment Tax Act. The total credit allowable against the tax imposed by such Act for the calendar year 1939 or 1940 shall not exceed 90 per centum of such tax.

(e) REFUND.—Refund, credit, or abatement of the tax (including penalty and interest assessed or collected with respect thereto, if any), based on any credit allowable under subsection (a) or (b), may be made in accordance with the provisions of law applicable in the case of erroneous or illegal assessment or collection of the tax (including statutes of limitations). No interest shall be allowed or paid on the amount of any such credit or refund. On and after the date of the enactment of this Act no refund, credit, or abatement shall be allowed based on any credit allowable under section 810 of the Revenue Act of 1938, section 902 (a) of the Social Security Act Amendments of 1939, or section 701 of the Second Revenue Act of 1940.

Passed the House of Representatives August 4, 1941.

Attest: SOUTH TRIMBLE,

Clerk.

Calendar No. 703

77TH CONGRESS
1ST SESSION

H. R. 5417

[Report No. 673]

AN ACT

To provide revenue, and for other purposes.

AUGUST 5 (legislative day, JULY 28), 1941
Read twice and referred to the Committee on Finance

SEPTEMBER 2, 1941
Reported with amendments

Calendar No. 703

77TH CONGRESS, 1st Session | SENATE | REPT. 673, Part 4

THE REVENUE BILL OF 1941

SEPTEMBER 3 (legislative day, SEPTEMBER 2), 1941.—Ordered to be printed

Mr. VANDENBERG, from the Committee on Finance, submitted the following

INDIVIDUAL VIEWS

[To accompany H. R. 5417]

In the total tax raised by the pending measure, some such measure is inevitable if there is to be any pretense of protecting the public credit. It is inevitable because there is no inexpensive way to go to war or to prepare for war. It is inevitable because there is no inexpensive way to underwrite the war bills of all foreign countries which the President may choose to include within our war expenditures. The quicker the country understands this cruel fact, the sooner it can realistically assess the extent to which it is prepared to pursue the unlimited foreign policy upon which we are now embarked. It would be folly to put dollars ahead of freedoms. But it would be worse folly to ignore the fact that our resources are not unlimited; that we cannot become the unlimited "treasury" as well as the "arsenal" of all those who may choose to fight the Axis; and that this tax bill—which will probably be followed by a lend-lease request for added billions which will consume the total new revenue here provided—puts us and our Allies on notice to face facts. Although this bill takes every possible penny of new revenue which the Senate Finance Committee could find, so long as it ignores fundamental changes in our tax system; and although it will fall with heavy burden on all our people, its approximate 4 billions of return is less than 10 percent of our appropriations and commitments for this fiscal year. No crystal-gazing is required to see where these trends lead. This bill is but a preview of the "belt tightening" which lies ahead for all America. To this extent, at least, it is a contribution to candor and realism. If we are drawn into a shooting war the burden will be relatively heavier. These considerations will become utterly inconsequential if we are attacked. Even now they must be weighed in the scales of relative jeopardy. But they should be weighed. This bill brings the war home to the people of the United States. Some such measure is inevitable; and it

must be accepted as inevitable even by those citizens who have opposed the policies that make it necessary.

It is inevitable for another reason. This war and defense era was preceded by an 8-year nondefense spending spree without parallel in the history of the world; and now the "chickens are coming home to roost." Our people are now loaded down with a burden of Federal taxation which is 50 percent greater than even was required to pay our World War bills. From July 1, 1933, to June 30, 1941, this administration has already spent 67 billions, collected 40 billions in revenues, accumulated a combined peacetime deficit of 27 billions, and increased the public debt beyond 50 billions, not including collateral guaranties. Of the 67 billions, only 5 billions can possibly represent extraordinary defense expenditures. Our debt limit already has been raised from 45 to 65 billions. We are on our way to 100 billions (which is nearly equal to the assessed valuation of all the real estate in the United States). The danger inherent in this situation was defined by President Roosevelt himself on March 10, 1933, when he officially reported that accumulated deficits of only 5 billions had put us "on the road toward bankruptcy" and when he promised that if he was given his "economy bill" (which he was) "there would be reasonable prospect that within a year the income of the Government will be sufficient to cover the expenditures of the Government." That prospect became a mirage. Thrift became a hissing and a byword. Deficit-spending became a passion. Yet it never ceased to be true, as asserted by the President on March 10, 1933, that it "is our first concern to make secure the foundation" of the public credit; and that "most liberal governments are wrecked on the rocks of loose fiscal policy".

We entered upon this war era—this "defense era"—tragically handicapped by this inheritance. There is no consolation in recalling the facts. But they bear upon our present necessities. They accumulate the reasons why this Congress dare not turn its back upon a new tax bill—to be followed by other tax bills—to "make secure the foundation" of the public credit. Nor can those who consistently opposed this orgy of peacetime extravagance dismiss this necessity on the grounds that it was none of their doing. We face a condition, not a theory. We have all been shoved into the same boat. We must all face the bills and we must all help pay them.

The Secretary of the Treasury told us last April that he would not be responsible for the hazard to the public credit unless this Congress had the courage to put the Nation on a two-thirds pay-as-you-go basis; and, without regard to parties or politics, we all acquiesced. That called for a $3,500,000,000 new tax bill—and here it is, plus. But since then, the Federal expenditures have taken another flight—and many more flights are in prospect ere this fiscal year is done. The Secretary's pious formula is already out the window. Although this bill climaxes an annual public revenue at least 50 percent greater than we ever had in the World War—when we were at war—it does not approach the distinguished Secretary's "two-thirds" formula. It would probably be impossible presently to do much more, however, without wrecking our internal economy—and our internal economy is probably already threatened more by "priorities" and "price controls" and "curtailments" and "taxes", unless these factors are prudently

administered, than it will ever be damaged by any alien tyrant-on-the-march. But this only serves to emphasize two propositions: First, at the very least we must have this much of a new tax bill; second, we must, at long last, institute far-reaching nondefense economies. At the same time we must realistically determine how far, short of war, we can underwrite the war bills of the world. We owe this to ourselves; we owe it to those abroad who must not be left to a dangerous disillusionment. We cannot be content with a bankrupt Utopia.

Nondefense economies—plus our "money's worth," instead of wild waste, in defense expenditures—are just as important as new taxes in saving this situation. We have had practically none of them to date. They will never be achieved without the same sort of stern executive leadership which we had in 1933. But executive leadership alone is not enough. Congress must cooperate. The one and only economy veto from the White House in many red-ink months was promptly overridden in the Senate. These are dangerous trends. It is a desperately dangerous legislative state of mind. The public credit is the first line of the national defense. The best thing about the pending bill as it comes from the Senate Finance Committee is the Byrd amendment which valiantly struggles toward reduced nondefense expenditures. But it is only a national anesthetic unless the President and Congress highly resolve to follow the hard way of stopping all Federal expenditures which are not indispensable. We must quit the free-and-easy notion that the Treasury of the United States is inexhaustible. We must quit the complacent, convenient notion of the last prodigal decade that debts are an asset. We must "go to war" against our spendthrifts long before we "go to war" against another enemy 3,000 miles away. We may be relatively rich. But we do not possess Aladdin's lamp. Simple arithmetic cannot be repealed even by the New Deal.

But there will still remain the unescapable need for $4,000,000,000 in new revenue—and more. Therefore a tax bill to this end is unavoidable—and the worst kind of a tax bill (which this probably is) would be better than no tax bill at all. No relatively incidental sacrifice on the part of the citizen, as a result of this bill, could be as bad as his sacrifice if we should neglect the need for additional Federal revenues under the circumstances. The result of any such blind course would be the collapse of our capitalistic system.

There can be no denial of the fact that this bill has many dangerous taxes in it. They eat at the very heart of our domestic economy. Many of these new taxes are highly discriminatory. The burden is not fairly spread. The reduction in personal income tax brackets to an extreme degree is highly illusory as a means to "spread the burden." It goes down into incomes which cannot, by any stretch of the imagination, be further reduced. Yet it takes seven times as much out of the higher brackets as it does out of the lowest brackets, and really becomes a device to pile still more burdens upon that minority of Americans who already pay most of the Nation's bills.

The Senate Finance Committee voted down my proposal for a general manufacturer's sales tax as a substitute for many of these new, discriminatory taxes. There is no practical way that I can bring this issue to the Senate floor. It is much too complicated to be

settled on the Senate floor. But I venture the prophecy that some such recourse is inevitable within another 12 months. With food, clothing, and medicine exempted from such a tax—and with careful precautions against pyramiding—it would produce a minimum of one and one-half billion dollars at 5 percent; and yet, according to labor's own statistics, it would not touch 80 percent of the average wage earner's annual budget. It comes far closer to measuring "ability to pay" than any other new tax that could be devised. Yet it would create a "national partnership" in this business of salvaging America. It would be fair and just to all concerned. Either it, or a "withholding tax," must soon come if we are to meet this fiscal challenge which is just as real and far more imminent than anything which threatens from abroad. My complaint against this pending bill is its failure to go to fundamentals in meeting this emergency. We cannot much longer ignore tax fundamentals. Our whole citizenship must join in paying these bills. There is no other way. We have only started to pay in this pending bill. And we have "started" in the same old, familiar, habitual way—namely, by picking out the easiest and most convenient tax targets and giving them another blast. Yet I recognize the parliamentary fact that this bill must go to conference with the House and that the Senate could not hope to succeed in substituting entirely new formulas. And there must be action with least possible delay because we are losing $3,000,000 a day in sadly needed revenue every day that the final enactment of this measure is postponed.

I shall reluctantly support the bill, if at all, only because any bill could not possibly be worse than no bill at all in view of the truly desperate fiscal emergency which the Federal Treasury confronts. I shall hope to see it improved before final Senate action. But it can never be rid of its inherent vice until Congress is prepared to face the realities to which I have referred.

I cannot conclude this expression of my minority views without paying my tribute to the new chairman of the Senate Finance Committee, the distinguished Senator from Georgia, Mr. George, who has a completely sound conception of national finance and who, within the limitations with which he is surrounded, may always be trusted to serve the best welfare of the people of the United States.

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77TH CONGRESS
1ST SESSION

H. R. 5417

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 3 (legislative day, SEPTEMBER 2), 1941
Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. VANDENBERG to the bill (H. R. 5417) to provide revenue, and for other purposes, viz: Insert at the appropriate place the following new section:

SEC. . DEDUCTIONS FOR ESTATE TAX INSURANCE AND ESTATE TAX PREPAYMENTS.

The Internal Revenue Code is amended by adding after section 813 the following new section:

"SEC. 814. DEDUCTIONS FOR ESTATE TAX INSURANCE AND ESTATE TAX PREPAYMENTS.

"(a) GENERAL RULE.—In determining the value of the net estate, there shall be deducted, in addition to the deductions provided by section 812—

"(1) The proceeds (to the extent included in gross

estate) of life insurance policies payable to and received by the Treasurer of the United States in trust for the payment of estate, inheritance, succession, legacy, or other death taxes levied by the United States against or with respect to the estate of the decedent; and

"(2) Amounts paid into the Treasury in the manner provided in this section by or on behalf of the decedent in anticipation of the liability for such taxes imposed against or with respect to the estate of the decedent.

"(b) LIMITATION ON DEDUCTIONS.—With respect to the life insurance policies referred to under paragraph (a) (1) of this section, the deduction shall be allowed only in the event that the premium-paying period provided in the policy is not less than ten years and the premiums are substantially equal in amount for each of the first ten years of the life of the policy, and not more than one year's premium has been paid in advance. With respect to the prepayments of tax referred to in paragraph (a) (2), the deduction shall be allowed only in the event that the payments are in equal annual amounts and are spread over a ten-year period. No deduction shall be allowed under this section in the event that the net estate of the decedent, after such deductions provided for in this section, would exceed $200,000, or the aggregate annual premiums and prepayments exceed $25,000. In no

event shall the total deduction under this section exceed $100,000.

"(c) TREATMENT OF EXCESS AMOUNTS.—The excess of the insurance proceeds or the tax prepayments over the amount of the actual tax liability computed without regard to this subsection shall be taxed separately at the same rate as would be applicable if such amount were added to the net estate. Any balance remaining after satisfaction of the total tax, including the separate tax provided for in this subsection, shall be accounted for (without interest) to the executor or administrator of the decedent for the benefit of the persons entitled thereto.

"(d) ISSUANCE OF ANTICIPATION RECEIPTS.—The Secretary of the Treasury is hereby authorized to accept prepayments of estimated Federal estate, inheritance, succession, legacy, or other taxes and issue in exchange therefor Federal tax anticipation receipts which shall not bear interest, but shall be redeemable at face value upon presentation by the original holder. Upon the death of the decedent the Secretary shall accept such anticipation receipts in satisfaction in whole or in part of the tax levied against or with respect to the estate of the decedent.

77TH CONGRESS
1ST SESSION

H. R. 5417

AMENDMENT

Intended to be proposed by Mr. VANDENBERG to the bill (H. R. 5417) to provide revenue, and for other purposes.

SEPTEMBER 3 (legislative day, SEPTEMBER 2), 1941
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77TH CONGRESS
1ST SESSION

H. R. 5417

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 3 (legislative day, SEPTEMBER 2), 1941
Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. DOWNEY to the bill (H. R. 5417) to provide revenue, and for other purposes, viz: At the end of the bill insert the following new title:

TITLE VII—AMENDMENTS TO SOCIAL SECURITY ACT

SEC. 801. GENERAL PENSIONS.

Title I of the Social Security Act, as amended, is amended to read as follows:

"TITLE I—GRANTS TO STATES FOR GENERAL PENSIONS

"APPROPRIATION

"SECTION 1. (a) For the purpose of providing general pensions to citizens of the United States who are sixty years

of age or over, there is hereby authorized to be appropriated for each fiscal year, beginning with the fiscal year commencing July 1, 1942, such sums as may be necessary to carry out such purpose in accordance with the provisions of this title. The sums made available under this section shall be used for making payments to States which have submitted, and had approved by the Social Security Board established by title VII (hereinafter referred to as the Board), State plans to administer such payments.

"(b) Any money appropriated pursuant to the authorization contained in this section shall, insofar as practicable, be borrowed from the Federal Old-Age and Survivors Insurance Trust Fund. Special obligations shall be issued to such trust fund, in accordance with the provisions of section 201 (c), in an amount equal to the amount so borrowed.

"STATE PLANS FOR ADMINISTRATION

"SEC. 2. (a) A State plan for the administration of general pensions must (1) either provide for the establishment or designation of a single State agency to administer the plan, or provide for the establishment or designation of a single State agency to supervise the administration of the plan; (2) provide for granting to any individual, whose claim for pension is denied, an opportunity for a fair hearing before such State agency; (3) provide such methods of administration (including methods relating to the establish-

ment and maintenance of personnel standards on a merit basis, except that the Board shall exercise no authority with respect to the selection, tenure of office, and compensation of any individual employed in accordance with such methods) as are found by the Board to be necessary for the proper and efficient operation of the plan; (4) provide that the State agency will make such reports, in such form and containing such information, as the Board may from time to time require, and comply with such provisions as the Board may from time to time find necessary to assure the correctness and verification of such reports; (5) provide safeguards which restrict the use or disclosure of information concerning applicants and pensioners to purposes directly connected with the administration of such pension; (6) beginning with the period commencing July 1, 1942, provide for the payment of general pensions of not less than $20 per month, and with the period commencing January 1, 1944, provide for the payment of general pensions of not less than $30 per month, to each United States citizen who has made application for such pension and who, at the time of such payment, is a resident of such State, is sixty years of age or older, and is not an inmate of a public institution; (7) provide that any such citizen who for any month receives a Federal Old-Age and Survivors Insurance Benefit Payment under title II of the Social Security Act or an annuity under the Railroad

Retirement Act of 1935 or 1937 shall not be entitled to receive such pension for such month; and (8) provide that if any such citizen or his or her spouse, if such citizen is dependent upon and supported by said spouse, during any month engages in any occupation, trade, business, profession, or other activity from which a profit, wage, compensation, or other remuneration is realized or expected (other than the performance of services in a private home for room and board and other than the collection of interest, rents, or other revenues from his or her own investments), such citizen shall not be entitled to receive such pension for such month.

"(b) The Board shall approve any plan which fulfills the conditions specified in subsection (a).

"PAYMENT TO STATES

"SEC. 3. (a) From the sums appropriated therefor, the Secretary of the Treasury shall pay to each State which has an approved plan for the administration of general pensions, for each quarter, beginning with the quarter commencing July 1, 1942, (1) an amount, which shall be used exclusively to pay general pensions, equal to the product of $20 multiplied by the total number of pensions paid during such quarter, and (2) an amount equal to one-half of the total of the sums expended during such quarter as found necessary by the Board for the proper and efficient administration of the State plan, which amount shall be used for

paying the costs of administering the State plan or for general pensions, or both, and for no other purpose: *Provided*, That for each quarter beginning with the quarter commencing January 1, 1944, the amount provided for in clause (1) shall be increased to an amount equal to the product of $30 multiplied by the total number of pensions paid during such quarter.

"(b) The method of computing and paying such amounts shall be as follows:

"(1) The Board shall, prior to the beginning of each quarter, estimate the amount to be paid to the State for such quarter under the provisions of subsection (a), such estimate to be based on (A) a report filed by the State containing its estimate of the total sum to be expended in such quarter in accordance with the provisions of such subsection, (B) records showing the number of United States citizens in the State who are sixty years of age or older, and (C) such other investigation as the Board may find necessary.

"(2) The Board shall then certify to the Secretary of the Treasury the amount so estimated by the Board, reduced or increased, as the case may be, by any sum by which it finds that its estimate for any prior quarter was greater or less than the amount which should have been paid to the State under subsection (a) for such

quarter, or by any sum by which it finds that its estimate for any quarter prior to July 1, 1942, was greater or less than the amount which should have been paid to the State for such quarter under the provisions of law in effect prior to such date, except to the extent that such sum has been applied to make the amount certified for any prior quarter greater or less than the amount estimated by the Board for such prior quarter.

"(3) The Secretary of the Treasury shall thereupon, through the Division of Disbursement of the Treasury Department and prior to audit or settlement by the General Accounting Office, pay to the State, at the time or times fixed by the Board, the amount so certified.

"OPERATION OF STATE PLANS

"SEC. 4. In the case of any State plan for the administration of general pensions which has been approved by the Board, if the Board, after reasonable notice and opportunity for hearing to the State agency administering or supervising the administration of such plan, finds—

"(1) that the plan has been so changed as to include any requirement not provided for in section 2 (a), or

"(2) that in the administration of the plan there is a failure to comply substantially with any provision required by section 2 (a) to be included in the plan;

the Board shall notify such State agency that further payments will not be made to the State until the Board is satisfied that such additional requirement is no longer so imposed, and that there is no longer any such failure to comply. Until it is so satisfied it shall make no further certification to the Secretary of the Treasury with respect to such State."

SEC. 802. (a) Subsections (a), (b) (1), (d) (1), and (f) (1) of section 202 of such Act are amended by striking out "sixty-five" and inserting in lieu thereof "sixty".

(b) Section 202 (b) (1) of such Act is amended by striking out "one-half of" wherever it appears therein.

(c) Section 202 (b) (2) of such Act is amended by striking out the words "one-half of a primary insurance benefit of her husband" and inserting in lieu thereof "a primary insurance benefit of her husband".

(d) Section 202 (d) (1) is amended by striking out "three-fourths of" wherever it appears therein.

(e) Section 202 (d) (2) of such Act is amended by striking out the words "three-fourths of a primary insurance benefit of her deceased husband" and inserting in lieu thereof "a primary insurance benefit of her deceased husband".

(f) Section 202 (f) (2) of such Act is amended by adding after the words "one-half of a primary insurance benefit of such deceased individual" the words "or $30, whichever is greater".

SEC. 803. (a) Subsection (a) of section 203 of such Act is amended by striking out "$20" wherever it appears therein and inserting in lieu thereof "$60".

(b) Subsection (b) of such section is hereby repealed.

SEC. 804. The last sentence of section 209 (e) (2) is amended to read as follows: "Where the primary insurance benefit thus computed is less than $30, such benefit shall be $30."

SEC. 805. Subsection (g) of section 209 of such Act is amended by striking out "sixty-five" and inserting in lieu thereof "sixty".

SEC. 806. (a) Subsections (i) and (k) of section 209 of such Act are amended by striking out "sixty" wherever it appears therein and inserting in lieu thereof "fifty-five".

(b) The amendments made by this section shall not be applicable to a wife or child who became entitled to an insurance benefit prior to the effective date of this section.

SEC. 807. The last sentence of section 209 (g) of such Act is amended to read as follows: "In any case where an individual has received in a calendar year $200 or more in wages, each quarter of such year shall be deemed a quarter of coverage, excepting any quarter in such year in which such individual dies or becomes entitled to a primary insurance benefit and any quarter succeeding such quarter in which he died or became so entitled."

SEC. 808. Section 1400 of the Internal Revenue Code is amended to read as follows:

"SEC. 1400. RATE OF TAX.

"In addition to other taxes, there shall be levied, collected, and paid upon the income of every individual a tax equal to the following percentages of the wages (as defined in section 1426 (a)) received by him after December 31, 1936, with respect to employment (as defined in section 1426 (b)) after such date:

"(1) With respect to wages received during the calendar years 1939, 1940, 1941, and 1942, the rate shall be 1 per centum.

"(2) With respect to wages received during the calendar year 1943, the rate shall be 2 per centum.

"(3) With respect to wages received after December 31, 1943, the rate shall be 3 per centum".

SEC. 809. Section 1410 of the Internal Revenue Code is amended to read as follows:

"SEC. 1410. RATE OF TAX.

"(a) In addition to other taxes, every employer shall pay an excise tax, with respect to having individuals in his employ, equal to the following percentages of the wages (as defined in section 1426 (a)) paid by him after December 31, 1936, with respect to employment (as defined in section 1426 (b)) after such date:

"(1) With respect to wages paid during the calendar years 1939, 1940, 1941, and 1942, the rate shall be 1 per centum.

"(2) With respect to wages paid during the calendar year 1943, the rate shall be 2 per centum.

"(3) With respect to wages paid after December 31, 1943, the rate shall be 3 per centum."

SEC. 810. The amendments made by sections 2, 3, 4, 5, 6, and 7 shall be applicable with respect to the individuals receiving Old-Age and Survivors Insurance benefit payments on July 1, 1942, but shall not be construed to increase any such benefit payments which became due prior to such date.

SEC. 811. Sections 801, 802, 803, 804, 805, 806, and 807 shall take effect on July 1, 1942; and sections 808 and 809 shall take effect on January 1, 1942.

77TH CONGRESS
1ST SESSION

H. R. 5417

AMENDMENT

Intended to be proposed by Mr. DOWNEY to the bill (H. R. 5417) to provide revenue, and for other purposes.

SEPTEMBER 3 (legislative day, SEPTEMBER 2), 1941
Ordered to lie on the table and to be printed

77TH CONGRESS
1ST SESSION

H. R. 5417

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 3 (legislative day, SEPTEMBER 2), 1941
Ordered to lie on the table and to be printed

AMENDMENTS

Intended to be proposed by Mr. LA FOLLETTE to the bill (H. R. 5417) to provide revenue, and for other purposes, viz:

On pages 52 and 53, in lieu of the schedule proposed to be inserted by the committee amendment, insert the following schedule:

"If the net estate is:	The tentative tax shall be:
Not over $5,000	4% of the net estate.
Over $5,000 but not over $10,000	$200, plus 8% of excess over $5,000.
Over $10,000 but not over $20,000	$600, plus 13% of excess over $10,000.
Over $20,000 but not over $30,000	$1,900, plus 17% of excess over $20,000.
Over $30,000 but not over $40,000	$3,600, plus 22% of excess over $30,000.
Over $40,000 but not over $60,000	$5,800, plus 25% of excess over $40,000.
Over $60,000 but not over $80,000	$10,800, plus 28% of excess over $60,000.
Over $80,000 but not over $100,000	$16,400, plus 31% of excess over $80,000.
Over $100,000 but not over $150,000.	$22,600, plus 34% of excess over $100,000.

"If the net estate is:	The tentative tax shall be:
Over $150,000 but not over $200,000.	$39,600, plus 37% of excess over $150,000.
Over $200,000 but not over $250,000.	$58,100, plus 40% of excess over $200,000.
Over $250,000 but not over $300,000.	$78,100, plus 44% of excess over $250,000.
Over $300,000 but not over $500,000.	$100,100, plus 48% of excess over $300,000.
Over $500,000 but not over $1,000,000.	$196,100, plus 52% of excess over $500,000.
Over $1,000,000 but not over $2,000,000.	$456,100, plus 54% of excess over $1,000,000.
Over $2,000,000 but not over $3,000,000.	$996,100, plus 56% of excess over $2,000,000.
Over $3,000,000 but not over $4,000,000.	$1,556,100, plus 58% of excess over $3,000,000.
Over $4,000,000 but not over $5,000,000.	$2,136,100, plus 61% of excess over $4,000,000.
Over $5,000,000 but not over $6,000,000.	$2,746,100, plus 63% of excess over $5,000,000.
Over $6,000,000 but not over $7,000,000.	$3,376,100, plus 65% of excess over $6,000,000.
Over $7,000,000 but not over $8,000,000.	$4,026,100, plus 67% of excess over $7,000,000.
Over $8,000,000 but not over $9,000,000.	$4,696,100, plus 69% of excess over $8,000,000.
Over $9,000,000 but not over $10,000,000.	$5,386,100, plus 71% of excess over $9,000,000.
Over $10,000,000 but not over $20,000,000.	$6,096,100, plus 73% of excess over $10,000,000.
Over $20,000,000 but not over $50,000,000.	$13,396,100, plus 75% of excess over $20,000,000.
Over $50,000,000	$35,896,100, plus 77% of excess over $50,000,000."

On page 54, between lines 3 and 4, insert the following new subsection:

"(b) EXEMPTION REDUCED.—Section 935 (b) of the Internal Revenue Code is amended by striking out '$40,000' and inserting in lieu thereof '$25,000'."

On page 54, line 4, strike out "(b)" and in lieu thereof insert "(c)".

On page 54, between lines 5 and 6, insert the following subsection:

"(d) INSURANCE EXEMPTION FOR ESTATE TAXES

REDUCED.—Section 811 (g) of the Internal Revenue Code is amended by striking out '$40,000' and inserting in lieu thereof '$25,000'."

On page 54, line 6, strike out "(c)" and in lieu thereof insert "(e)"; and in the same line, strike out "(a) and (b)" and in lieu thereof insert "(a), (b), (c), and (d)".

On pages 55 and 56, in lieu of the rate schedule proposed to be inserted by the committee amendment insert the following:

"If the net gifts are:	The tax shall be:
Not over $5,000	3% of the net gifts.
Over $5,000 but not over $10,000	$150, plus 6% of excess over $5,000.
Over $10,000 but not over $20,000	$450, plus 9¾% of excess over $10,000.
Over $20,000 but not over $30,000	$1,425, plus 12¾% of excess over $20,000.
Over $30,000 but not over $40,000	$2,700, plus 16½% of excess over $30,000.
Over $40,000 but not over $60,000	$4,350, plus 18¾% of excess over $40,000.
Over $60,000 but not over $80,000	$8,100, plus 21% of excess over $60,000.
Over $80,000 but not over $100,000	$12,300, plus 23¼% of excess over $80,000.
Over $100,000 but not over $150,000.	$16,950, plus 25½% of excess over $100,000.
Over $150,000 but not over $200,000.	$29,700, plus 27¾% of excess over $150,000.
Over $200,000 but not over $250,000.	$43,575, plus 30% of excess over $200,000.
Over $250,000 but not over $300,000.	$58,575, plus 33% of excess over $250,000.
Over $300,000 but not over $500,000.	$75,075, plus 36% of excess over $300,000.
Over $500,000 but not over $1,000,000.	$147,075, plus 39% of excess over $500,000.
Over $1,000,000 but not over $2,000,000.	$342,075, plus 40½% of excess over $1,000,000.
Over $2,000,000 but not over $3,000,000.	$747,075, plus 42% of excess over $2,000,000.
Over $3,000,000 but not over $4,000,000.	$1,167,075, plus 43½% of excess over $3,000,000.
Over $4,000,000 but not over $5,000,000.	$1,602,075, plus 45¾% of excess over $4,000,000.

"If the net gifts are:	The tax shall be:
Over $5,000,000 but not over $6,000,000.	$2,059,575, plus 47¼% of excess over $5,000,000.
Over $6,000,000 but not over $7,000,000.	$2,532,075, plus 48¾% of excess over $6,000,000.
Over $7,000,000 but not over $8,000,000.	$3,019,575, plus 50¼% of excess over $7,000,000.
Over $8,000,000 but not over $9,000,000.	$3,522,075, plus 51¾% of excess over $8,000,000.
Over $9,000,000 but not over $10,000,000.	$4,039,575, plus 53¼% of excess over $9,000,000.
Over $10,000,000 but not over $20,000,000.	$4,572,075, plus 54¾% of excess over $10,000,000.
Over $20,000,000 but not over $50,000,000.	$10,047,075, plus 56¼% of excess over $20,000,000.
Over $50,000,000	$26,922,075, plus 57¾% of excess over $50,000,000."

On page 56, after the rate schedule, insert the following new subsection:

"(b) EXEMPTION REDUCED.—Section 1004 (a) (1) of the Internal Revenue Code is amended by striking out '$40,000' and inserting in lieu thereof '$25,000'."

On page 56, line 1, strike out "(b)" and in lieu thereof insert "(c)".

On page 56, line 16, strike out "(c)" and in lieu thereof insert "(d)".

77TH CONGRESS
1ST SESSION

H. R. 5417

AMENDMENTS

Intended to be proposed by Mr. LA FOLLETTE to the bill (H. R. 5417) to provide revenue, and for other purposes.

SEPTEMBER 3 (legislative day, SEPTEMBER 2), 1941
Ordered to lie on the table and to be printed

Mr. BARKLEY. I announce that the Senator from Washington [Mr. BONE], the Senator from Virginia [Mr. GLASS], the Senator from North Carolina [Mr. REYNOLDS], and the Senator from New York [Mr. WAGNER] are absent from the Senate because of illness.

The Senator from Michigan [Mr. BROWN], the Senator from New Mexico [Mr. CHAVEZ], the Senator from Delaware [Mr. HUGHES], the Senator from Illinois [Mr. LUCAS], the Senator from Tennessee [Mr. MCKELLAR], the Senator from Utah [Mr. MURDOCK], the Senator from Florida [Mr. PEPPER], the Senator from Tennessee [Mr. STEWART], the Senator from Oklahoma [Mr. THOMAS], and the Senator from Montana [Mr. WHEELER] are necessarily absent.

The Senator from Montana [Mr. MURRAY] is detained on official business in the State of Montana.

The Senator from New York [Mr. MEAD], the Senator from Missouri [Mr. TRUMAN], and the Senator from Washington [Mr. WALLGREN] are engaged in holding hearings on behalf of the Committee to Investigate the National Defense Program.

The Senator from Kentucky [Mr. CHANDLER] is absent on a defense-inspection tour.

Mr. AUSTIN. The Senator from Minnesota [Mr. BALL], the Senator from South Dakota [Mr. GURNEY], the Senator from Massachusetts [Mr. LODGE], the Senator from Kansas [Mr. REED], and the Senator from Minnesota [Mr. SHIPSTEAD] are necessarily absent.

The Senator from Indiana [Mr. WILLIS] is absent because of a personal injury.

The VICE PRESIDENT. Sixty-eight Senators have answered to their names. A quorum is present.

EXECUTIVE COMMUNICATION

The VICE PRESIDENT laid before the Senate the following letter, which was referred as indicated:

DISPOSITION OF EXECUTIVE PAPERS

Letters from the Archivist of the United States, transmitting, pursuant to law, lists of papers and documents on the files of the Departments of the Treasury (2), War, Navy (3), Agriculture, and Commerce (2); the Executive Office of the President, the Federal Security Agency, the Social Security Board (2), the Federal Works Agency, Work Projects Administration, the United States Housing Authority (2), and the United States Food Administration, which are not needed in the conduct of business and have no permanent value or historical interest, and requesting action looking to their disposition (with the accompanying papers); to a Joint Select Committee on the Disposition of Papers in the Executive Departments.

The VICE PRESIDENT appointed Mr. BARKLEY and Mr. BREWSTER members of the committee on the part of the Senate.

PETITIONS AND MEMORIALS

Petitions, etc., were presented and referred as indicated:

By Mr. CAPPER:

Petitions, numerously signed, of sundry citizens of El Dorado, Parsons, and St. John, Kans., praying for the enactment of the bill (S. 860) to provide for the common defense in relation to the sale of alcoholic liquors to the members of the land and naval forces of the United States and to provide for the suppression of vice in the vicinity of military camps and naval establishments; to the table.

By Mr. VANDENBERG:

A memorial of sundry citizens of Kent County and vicinity, in the State of Michigan, remonstrating against the imposition of a 49-cent penalty on wheat quotas for 1941; to the Committee on Agriculture and Forestry.

A resolution of the City Council of Saginaw, Mich., approving the application for Federal aid in the construction of a new hospital unit heretofore filed by the Board of Supervisors of the County of Saginaw; to the Committee on Appropriations.

A memorial of sundry citizens of Ludington, Mich., remonstrating against the United States entering any foreign war; to the Committee on Foreign Relations.

A petition of sundry citizens of Escanaba and vicinity, in the State of Michigan, praying for the enactment of Senate bill 1466, to amend the disability provision of the Railroad Retirement Act, etc.; to the Committee on Interstate Commerce.

Memorials of sundry citizens of the State of Michigan, remonstrating against the enactment of the bill (S. 860) to provide for the common defense in relation to the sale of alcoholic liquors to the members of the land and naval forces of the United States and to provide for the suppression of vice in the vicinity of military camps and naval establishments; to the table.

REVENUE ACT OF 1941—INDIVIDUAL VIEWS OF MR. VANDENBERG (PT. 4 OF S. REPT. NO. 673)

Mr. VANDENBERG. Mr. President, as a member of the Finance Committee, I wish to submit, on my own behalf, minority views respecting the pending tax bill. I ask that my individual minority views may be printed in report form.

The VICE PRESIDENT. Without objection, it is so ordered.

Mr. VANDENBERG. I desire to make a further request. Inasmuch as the debate on the tax bill will cost the Government $3,000,000 a day—that being the loss of revenue each day the conclusion of action is postponed—and I am anxious to expedite consideration as much as I can, I shall be content, so far as an expression of my own views is concerned, if I may be permitted to have this brief report printed in body type in the RECORD at this point in my remarks; and I make that request.

The VICE PRESIDENT. Without objection, it is so ordered.

The individual views submitted by Mr. VANDENBERG are as follows:

In the total tax raised by the pending measure, some such measure is inevitable if there is to be any pretense of protecting the public credit. It is inevitable because there is no inexpensive way to go to war or to prepare for war. It is inevitable because there is no inexpensive way to underwrite the war bills of all foreign countries which the President may choose to include within our war expenditures. The quicker the country understands this cruel fact, the sooner it can realistically assess the extent to which it is prepared to pursue the unlimited foreign policy upon which we are now embarked. It would be folly to put dollars ahead of freedoms. But it would be worse folly to ignore the fact that our resources are not unlimited; that we cannot become the unlimited treasury as well as the arsenal of all those who may choose to fight the Axis; and that this tax bill—which will probably be followed by a lend-lease request for added billions which will consume the total new revenue here provided—puts us and our allies on notice to face facts. Although this bill takes every possible penny of new revenue which the Senate Finance Committee could find, so long as it ignores fundamental changes in our tax system, and although it will fall with heavy burden on all our people, its approximate 4 billions of return is less than 10 percent of our appropriations and commitments for this fiscal year. No crystal-gazing is required to see where these trends lead. This bill is but a preview of the "belt-tightening" which lies ahead for all America. To this extent, at least, it is a contribution to candor and realism. If we are drawn into a shooting war the burden will be relatively heavier. These considerations will became utterly inconsequential if we are attacked. Even now they must be weighed in the scales of relative jeopardy. But they should be weighed. This bill brings the war home to the people of the United States. Some such measure is inevitable; and it must be accepted as inevitable even by those citizens who have opposed the policies that make it necessary.

It is inevitable for another reason. This war and defense era was preceded by an 8-year nondefense spending spree without parallel in the history of the world; and now the "chickens are coming home to roost." Our people are now loaded down with a burden of Federal taxation which is 50 percent greater than even was required to pay our World War bills. From July 1, 1933, to June 30, 1941, this administration has already spent sixty-seven billions, collected forty billions in revenue, accumulated a combined peacetime deficit of twenty-seven billions, and increased the public debt beyond fifty billions, not including collateral guaranties. Of the sixty-seven billions, only five billions can possibly represent extraordinary defense expenditures. Our debt limit already has been raised from forty-five to sixty-five billions. We are on our way to one hundred billions—which is nearly equal to the assessed valuation of all the real estate in the United States. The danger inherent in this situation was defined by President Roosevelt himself on March 10, 1933, when he officially reported that accumulated deficits of only five billions had put us "on the road toward bankruptcy," and when he promised that if he was given his "economy bill"—which he was—"there would be reasonable prospect that within a year the income of the Government will be sufficient to cover the expenditures of the Government." That prospect became a mirage. Thrift became a hissing and a byword. Deficit spending became a passion. Yet it never ceased to be true, as asserted by the President on March 10, 1933, that it "is our first concern to make secure the foundation" of the public credit, and that "most liberal governments are wrecked on the rocks of loose fiscal policy."

We entered upon this war era—this defense era—tragically handicapped by this inheritance. There is no consolation in recalling the facts. But they bear upon our present necessities. They accumulate the reasons why this Congress dare not turn its back upon a new tax bill—to be followed by other tax bills—to "make secure the foundation" of the public credit. Nor can those who consistently opposed this orgy of peacetime extravagance dismiss this necessity on the grounds that it was none of their doing. We face a condition not a theory. We have all been shoved into the same boat. We must all face the bills and we must all help pay them.

The Secretary of the Treasury told us last April that he would not be responsible for the hazard to the public credit unless this Congress had the courage to put the Nation on a two-thirds pay-as-you-go basis, and, without regard to parties or politics, we all acquiesced. That called for a $3,500,000,000 new tax bill, and here it is, plus. But since

then the Federal expenditures have taken another flight—and many more flights are in prospect ere this fiscal year is done. The Secretary's pious formula is already out the window. Although this bill climaxes an annual public revenue at least 50 percent greater than we ever had in the World War—when we were at war—it does not approach the distinguished Secretary's two-thirds formula. It would probably be impossible presently to do much more, however, without wrecking our internal economy—and our internal economy is probably already threatened more by priorities and price controls and curtailments and taxes, unless these factors are prudently administered, than it will ever be damaged by any alien tyrant on the march. But this only serves to emphasize two propositions: First, at the very least we must have this much of a new tax bill; second, we must, at long last, institute far-reaching nondefense economies. At the same time we must realistically determine how far, short of war, we can underwrite the war bills of the world. We owe this to ourselves, we owe it to those abroad who must not be left to a dangerous disillusionment. We cannot be content with a bankrupt utopia.

Nondefense economies—plus our money's worth, instead of wild waste, in defense expenditures—are just as important as new taxes in saving this situation. We have had practically none of them to date. They will never be achieved without the same sort of stern executive leadership which we had in 1933. But executive leadership alone is not enough. Congress must cooperate. The one and only economy veto from the White House in many red-ink months was promptly overridden in the Senate. These are dangerous trends. It is a desperately dangerous legislative state of mind. The public credit is the first line of the national defense. The best thing about the pending bill as it comes from the Senate Finance Committee is the Byrd amendment which valiantly struggles toward reduced nondefense expenditures. But it is only a national anesthetic unless the President and Congress highly resolve to follow the hard way of stopping all Federal expenditures which are not indispensable. We must quit the free-and-easy notion that the Treasury of the United States is inexhaustible. We must quit the complacent, convenient notion of the last prodigal decade that debts are an asset. We must go to war against our spendthrifts long before we go to war against another enemy 3,000 miles away. We may be relatively rich. But we do not posses Aladdin's lamp. Simple arithmetic cannot be repealed even by the New Deal.

But there will still remain the unescapable need for $4,000,000,000 in new revenue—and more. Therefore a tax bill to this end is unavoidable—and the worst kind of a tax bill—which this probably is—would be better than no tax bill at all. No relatively incidental sacrifice on the part of the citizen, as a result of this bill, could be as bad as his sacrifice if we should neglect the need for additional Federal revenues under the circumstances. The result of any such blind course would be the collapse of our capitalistic system.

There can be no denial of the fact that this bill has many dangerous taxes in it. They eat at the very heart of our domestic economy. Many of these new taxes are highly discriminatory. The burden is not fairly spread. The reduction in personal-income tax brackets to an extreme degree is highly illusory as a means to spread the burden. It goes down into incomes which cannot, by any stretch of the imagination, be further reduced. Yet it taxes seven times as much out of the higher brackets as it does out of the lowest brackets, and really becomes a device to pile still more burdens upon that minority of Americans who already pay most of the Nation's bills.

The Senate Finance Committee voted down my proposal for a general manufacturer's sales tax as a substitute for many of these new discriminatory taxes. There is no practical way that I can bring this issue to the Senate floor. It is much too complicated to be settled on the Senate floor. But I venture the prophecy that some such recourse is inevitable within another 12 months. With food, clothing, and medicine exempted from such a tax, and with careful precautions against pyramiding, it would produce a minimum of one and one-half billion dollars at 5 percent; and yet, according to labor's own statistics, it would not touch 80 percent of the average wage earner's annual budget. It comes far closer to measuring ability to pay than any other new tax that could be devised. Yet it would create a national partnership in this business of salvaging America. It would be fair and just to all concerned. Either it, or a "withholding tax," must soon come if we are to meet this fiscal challenge which is just as real and far more imminent than anything which threatens from abroad. My complaint against this pending bill is its failure to go to fundamentals in meeting this emergency. We cannot much longer ignore tax fundamentals. Our whole citizenship must join in paying these bills. There is no other way. We have only started to pay in this pending bill. And we have started in the same old, familiar, habitual way—namely, by picking out the easiest and most convenient tax targets and giving them another blast. Yet I recognize the parliamentary fact that this bill must go to conference with the House, and that the Senate could not hope to succeed in substituting entirely new formulas. And there must be action with least possible delay, because we are losing $3,000,000 a day in sadly needed revenue every day that the final enactment of this measure is postponed.

I shall reluctantly support the bill, if at all, only because any bill could not possibly be worse than no bill at all, in view of the truly desperate fiscal emergency which the Federal Treasury confronts. I shall hope to see it improved before final Senate action. But it can never be rid of its inherent vice until Congress is prepared to face the realities to which I have referred.

I cannot conclude this expression of my minority views without paying my tribute to the new chairman of the Senate Finance Committee, the distinguished Senator from Georgia [Mr. GEORGE], who has a completely sound conception of national finance, and who, within the limitations with which he is surrounded, may always be trusted to serve the best welfare of the people of the United States.

BILLS INTRODUCED

Bills were introduced, read the first time, and, by unanimous consent, the second time, and referred as follows:

By Mr. McNARY:

S. 1880. A bill for the relief of Florence B. Hutchinson; to the Committee on Claims.

By Mr. HOLMAN:

S. 1881. A bill for the relief of Roy L. Howard; to the Committee on Claims.

By Mr. SCHWARTZ:

S. 1882. A bill granting pensions to persons who suffered injury or disease prior to final induction in the Regular Army, Navy, or Coast Guard, and for other purposes; to the Committee on Pensions.

By Mr. JOHNSON of Colorado:

S. 1883. A bill to increase the monthly base pay of enlisted personnel of the land forces of the United States; to the Committee on Military Affairs.

By Mr. THOMAS of Utah (for Mr. REYNOLDS):

S. 1884. A bill to make provision for the construction activities of the Army;

S. 1885. A bill to extend, under certain conditions, the time for examination of monthly accounts covering expenditures by disbursing officers of the Army; and

S. 1886. A bill to amend the Pay Readjustment Act of June 10, 1922, so as to equalize the rates of pay of commissioned officers of corresponding grade and length of service; to the Committee on Military Affairs.

By Mr. KILGORE:

S. 1887. A bill granting a pension to Herman Meikle; to the Committee on Finance.

S. 1888. A bill authorizing the President to proclaim the Sunday before Memorial Day as a day for memorial services for deceased firemen; to the Committee on the Judiciary.

REVENUE ACT OF 1941—AMENDMENTS

Mr. DOWNEY. Mr. President, I offer an amendment to House bill 5417, the revenue bill, which I ask to have printed in the CONGRESSIONAL RECORD for the information of Senators, and also request that it may lie on the table for the present.

The VICE PRESIDENT. Without objection, it is so ordered.

The amendment intended to be proposed by Mr. DOWNEY to House bill 5417 is as follows: At the end of the bill insert the following new title:

TITLE VII—AMENDMENTS TO SOCIAL SECURITY ACT

SEC. 801. General pensions.

Title I of the Social Security Act, as amended, is amended to read as follows:

"TITLE I—GRANTS TO STATES FOR GENERAL PENSIONS

"APPROPRIATION

"SECTION 1. (a) For the purpose of providing general pensions to citizens of the United States who are 60 years of age or over, there is hereby authorized to be appropriated for each fiscal year, beginning with the fiscal year commencing July 1, 1942, such sums as may be necessary to carry out such purpose in accordance with the provisions of this title. The sums made available under this section shall be used for making payments to States which have submitted, and had approved by the Social Security Board established by title VII (hereinafter referred to as the Board), State plans to administer such payments.

"(b) Any money appropriated pursuant to the authorization contained in this section shall, insofar as practicable, be borrowed from the Federal old-age and survivors insurance trust fund. Special obligations shall be issued to such trust fund, in accordance with the provisions of section 201 (c), in an amount equal to the amount so borrowed.

"STATE PLANS FOR ADMINISTRATION

"SEC. 2. (a) A State plan for the administration of general pensions must (1) either provide for the establishment or designation of a single State agency to administer the plan, or provide for the establishment or designation of a single State agency to supervise the administration of the plan; (2) provide for granting to any individual, whose claim for pension is denied, an opportunity for a fair hearing before such State agency; (3) provide such methods of administration (including methods relating to the establishment and maintenance of personnel standards on a merit basis, except that the Board shall exercise no authority with respect to the selection, tenure of office, and compensation of any individual employed in accordance with such methods) as are found by the Board to be necessary for the proper and

efficient operation of the plan; (4) provide that the State agency will make such reports, in such form and containing such information, as the Board may from time to time require, and comply with such provisions as the Board may from time to time find necessary to assure the correctness and verification of such reports; (5) provide safeguards which restrict the use or disclosure of information concerning applicants and pensioners to purposes directly connected with the administration of such pension; (6) beginning with the period commencing July 1, 1942, provide for the payment of general pensions of not less than $20 per month, and with the period commencing January 1, 1944, provide for the payment of general pensions of not less than $30 per month, to each United States citizen who has made application for such pension and who, at the time of such payment, is a resident of such State, is 60 years of age or older, and is not an inmate of a public institution; (7) provide that any such citizen who for any month receives a Federal old-age and survivors insurance benefit payment under title II of the Social Security Act or an annuity under the Railroad Retirement Act of 1935 or 1937 shall not be entitled to receive such pension for such month; and (8) provide that if any such citizen or his or her spouse, if such citizen is dependent upon and supported by said spouse, during any month engages in any occupation, trade, business, profession, or other activity from which a profit, wage, compensation, or other remuneration is realized or expected (other than the performance of services in a private home for room and board and other than the collection of interest, rents, or other revenues from his or her own investments), such citizen shall not be entitled to receive such pension for such month.

"(b) The Board shall approve any plan which fulfills the conditions specified in subsection (a).

"PAYMENT TO STATES

"SEC. 3. (a) From the sums appropriated therefor, the Secretary of the Treasury shall pay to each State which has an approved plan for the administration of general pensions, for each quarter, beginning with the quarter commencing July 1, 1942, (1) an amount, which shall be used exclusively to pay general pensions, equal to the product of $20 multiplied by the total number of pensions paid during such quarter, and (2) an amount equal to one-half of the total of the sums expended during such quarter as found necessary by the Board for the proper and efficient administration of the State plan, which amount shall be used for paying the costs of administering the State plan or for general pensions, or both, and for no other purpose: *Provided*, That for each quarter beginning with the quarter commencing January 1, 1944 the amount provided for in clause (1) shall be increased to an amount equal to the product of $30 multiplied by the total number of pensions paid during such quarter.

"(b) The method of computing and paying such amounts shall be as follows:

"(1) The Board shall, prior to the beginning of each quarter, estimate the amount to be paid to the State for such quarter under the provisions of subsection (a), such estimate to be based on (A) a report filed by the State containing its estimate of the total sum to be expended in such quarter in accordance with the provisions of such subsection, (B) records showing the number of United States citizens in the State who are 60 years of age or older, and (C) such other investigation as the Board may find necessary.

"(2) The Board shall then certify to the Secretary of the Treasury the amount so estimated by the Board, reduced or increased, as the case may be, by any sum by which it finds that its estimate for any prior quarter was greater or less than the amount which should have been paid to the State under subsection (a) for such quarter, or by any sum by which it finds that its estimate for any quarter prior to July 1, 1942, was greater or less than the amount which should have been paid to the State for such quarter under the provisions of law in effect prior to such date, except to the extent that such sum has been applied to make the amount certified for any prior quarter greater or less than the amount estimated by the Board for such prior quarter.

"(3) The Secretary of the Treasury shall thereupon, through the Division of Disbursement of the Treasury Department and prior to audit or settlement by the General Accounting Office, pay to the State, at the time or times fixed by the Board, the amount so certified.

"OPERATION OF STATE PLANS

"SEC. 4. In the case of any State plan for the administration of general pensions which has been approved by the Board, if the Board, after reasonable notice and opportunity for hearing to the State agency administering or supervising the administration of such plan, finds—

"(1) that the plan has been so changed as to include any requirement not provided for in section 2 (a), or

"(2) that in the administration of the plan there is a failure to comply substantially with any provision required by section 2 (a) to be included in the plan; the Board shall notify such State agency that further payments will not be made to the State until the Board is satisfied that such additional requirement is no longer so imposed, and that there is no longer any such failure to comply. Until it is so satisfied it shall make no further certification to the Secretary of the Treasury with respect to such State."

SEC. 802. (a) Subsections (a), (b) (1), (d) (1), and (f) (1) of section 202 of such act are amended by striking out "sixty-five" and inserting in lieu thereof "sixty."

(b) Section 202 (b) (1) of such act is amended by striking out "one-half of" wherever it appears therein.

(c) Section 202 (b) (2) of such act is amended by striking out the words "one-half of a primary insurance benefit of her husband" and inserting in lieu thereof "a primary insurance benefit of her husband."

(d) Section 202 (d) (1) is amended by striking out "three-fourths of" wherever it appears therein.

(e) Section 202 (d) (2) of such act is amended by striking out the words "three-fourths of a primary insurance benefit of her deceased husband" and inserting in lieu thereof "a primary insurance benefit of her deceased husband."

(f) Section 202 (f) (2) of such act is amended by adding after the words "one-half of a primary insurance benefit of such deceased individual" the words "or $30, whichever is greater."

SEC. 803. (a) Subsection (a) of section 203 of such act is amended by striking out "$20" wherever it appears therein and inserting in lieu thereof "$60."

(b) Subsection (b) of such section is hereby repealed.

SEC. 804. The last sentence of section 209 (e) (2) is amended to read as follows: "Where the primary insurance benefit thus computed is less than $30, such benefit shall be $30."

SEC. 805. Subsection (g) of section 209 of such act is amended by striking out "65" and inserting in lieu thereof "60."

SEC. 806. (a) Subsections (i) and (k) of section 209 of such act are amended by striking out "60" wherever it appears therein and inserting in lieu thereof "55."

(b) The amendments made by this section shall not be applicable to a wife or child who became entitled to an insurance benefit prior to the effective date of this section.

SEC. 807. The last sentence of section 209 (g) of such act is amended to read as follows: "In any case where an individual has received in a calendar year $200 or more in wages, each quarter of such year shall be deemed a quarter of coverage, excepting any quarter in such year in which such individual dies or becomes entitled to a primary insurance benefit and any quarter succeeding such quarter in which he died or became so entitled."

SEC. 808. Section 1400 of the Internal Revenue Code is amended to read as follows:

"SEC. 1400. Rate of tax.

"In addition to other taxes, there shall be levied, collected, and paid upon the income of every individual a tax equal to the following percentages of the wages (as defined in section 1426 (a)) received by him after December 31, 1936, with respect to employment (as defined in section 1426 (b)) after such date:

"(1) With respect to wages received during the calendar years 1939, 1940, 1941, and 1942 the rate shall be 1 percent.

"(2) With respect to wages received during the calendar year 1943 the rate shall be 2 percent.

"(3) With respect to wages received after December 31, 1943, the rate shall be 3 percent."

SEC. 809. Section 1410 of the Internal Revenue Code is amended to read as follows:

"SEC. 1410. Rate of tax.

"(a) In addition to other taxes, every employer shall pay an excise tax, with respect to having individuals in his employ, equal to the following percentages of the wages (as defined in section 1426 (a)) paid by him after December 31, 1936, with respect to employment (as defined in section 1426 (b)) after such date:

"(1) With respect to wages paid during the calendar years 1939, 1940, 1941, and 1942 the rate shall be 1 percent.

"(2) With respect to wages paid during the calendar year 1943 the rate shall be 2 percent.

"(3) With respect to wages paid after December 31, 1943, the rate shall be 3 percent."

SEC. 810. The amendments made by sections 2, 3, 4, 5, 6, and 7 shall be applicable with respect to the individuals receiving old-age and survivors insurance benefit payments on July 1, 1942, but shall not be construed to increase any such benefit payments which became due prior to such date.

SEC. 811. Sections 801, 802, 803, 804, 805, 806, and 807 shall take effect on July 1, 1942; and sections 808 and 809 shall take effect on January 1, 1942.

Mr. LA FOLLETTE and Mr. VANDENBERG each submitted an amendment intended to be proposed by them, respectively, to House bill 5417, the revenue bill, which were ordered to lie on the table and to be printed.

EDITORIAL FROM OSBORNE COUNTY FARMER ON NONDEFENSE SPENDING

Mr. CAPPER. Mr. President, I ask unanimous consent to have printed in the CONGRESSIONAL RECORD an editorial written by Charles E. Mann and printed in the last issue of the Osborne County Farmer, one of the influential weekly newspapers of the State of Kansas.

I heartily endorse Mr. Mann's appeal for economy in public expenditures at Washington. Our appropriations this year for national-defense purposes will amount to approximately $50,000,000,000. It is money that must be spent, and I am giving national defense my best

support. But we are also going stronger than ever on nondefense appropriations, much stronger than we should in time of emergency. The time has come to call a halt on nondefense expenditures.

The VICE PRESIDENT. Without objection, the editorial will be printed in the RECORD.

The editorial is as follows:

Pressure should be brought upon Congress by every section of the United States to force the administration to stop the outlandish nondefense spending, which apparently has decreased but little, if any, since the big defense drive began. Adequate national defense we must have, even at great cost, but there is neither sense nor justice in keeping up the tremendous outlay for nondefense needs that has characterized the administration for years. Unless there is a curb put upon nondefense spending, there is likely to be such a reaction over the country that it will result almost in a revolution—not a bloody one, we hope, but such a reaction that may do harm to many good things that have been established. The public is rapidly becoming conscious of the terrible waste of money by the Washington administration, and there is a rising tide of indignation that may have serious repercussions. It would seem that plain, common sense would teach the powers that be in Washington that this is no time to waste the money of the people with the outcome of the future of the world in such doubt. Every voter should write his Congressman or Senator and insist upon economy.

SHORTAGE IN STEEL SCRAP

Mr. DAVIS. Mr. President, the shortage in steel scrap has been the subject of much comment throughout the country. There is no end to suggestions as to what should be done to remedy this situation, extending all the way from opening up new steel mills in the West closer to the supposed source of rural scrap supply to the idea that substitutes for steel would make it unnecessary to have so much scrap. Meanwhile, we hear of an impending governmental attempt to get volunteer gathering up of scrap at the same time that the Price Administrator clamps down on the market. Of this, not much makes sense.

Mr. President, I ask unanimous consent to have inserted in the RECORD as a part of my remarks an editorial from the Iron Age of August 14, 1941, entitled "When Balloons Are in Order, Inflate."

The VICE PRESIDENT. Without objection, it is so ordered.

The editorial is as follows:

[From Iron Age of August 14, 1941]

WHEN BALLOONS ARE IN ORDER, INFLATE

We have no quarrel with Price Administrator Henderson. In fact, we find him in agreement with us, if somewhat belated, as to the inevitability of inflation. (The Iron Age is on record as predicting this some 6 months ago.)

What we do object to is his using the scrap-steel industry to be one of the inflation scapegoats.

As publishers, I may point out that we cannot be accused of mercenary motives in coming to the defense of that industry. If you were to make up a list of the non-advertising branches of the metal-working industry, I dare say that the scrap dealers would head the list.

Also, if you were to attempt to catalog individuality in American enterprise, this branch of our industry would have to appear on page one. Until the ceiling was clamped on scrap, this commodity was the most volatile as to price movement of the many that are listed from week to week in our price pages.

American scrap dealers and brokers have been brought up on individualistic practices based upon close competition and shrewd dealing mixed with a certain degree of speculation. If that is a crime, it has not as yet been written in the statute books. It is probably true, as Mr. Henderson says, that the scrap industry is dominated by 10 or 15 large concerns; but the same thing is true of almost every industry in this country. We might even point out that less than that number of individuals are dictating the diplomatic, military, and economic policies of the United States today.

What Mr. Henderson overlooks, in our opinion, is that you cannot cure or remedy an infraction of economic law by sticking a courtplaster over it. The causes of inflation in this country are not in the price rises that are taking place. They are deeper than that. This inflation is the direct and inevitable result of the "squanderation" policy that has been in effect for the past 9 years and that has brought us to the brink of war with the greatest national indebtedness of any country, anywhere, at any time.

You can't cure that with price ceilings.

You can't cure scrap shortages with a price ceiling. Such a ceiling, in fact, induces and invites shortages.

In the last World War, scrap was set at $29 a ton. Today it is set at $20. (Agricultural parity exponents please note.) In spite of this, more scrap is being collected and delivered than ever before in our history and at less profit.

Yes, we need more than even this to prevent a shortage. There are thousands of tons of reclaimable trolley rails, for instance, buried under our streets. But the "scrappies" can't unearth them at $20 a ton.

And the same thing goes for many other commodities in which we are experiencing or anticipating shortages. If you want to dance, you have to be willing to pay the piper.

J. H. VAN DEVENTER.

NATIONAL DEFENSE NOW—ADDRESS BY SENATOR BYRD

[Mr. BYRD asked and obtained leave to have printed in the RECORD a radio address delivered by him on September 1, 1941, on the subject National Defense Now, which appears in the Appendix.]

ARTICLE BY ARTHUR KROCK ON AMERICAN DEFENSE PRODUCTION

[Mr. BYRD asked and obtained leave to have printed in the RECORD an article by Arthur Krock, published in the New York Times of September 2, 1941, entitled "American Defense Production in War's Third Year," which appears in the Appendix.]

ADDRESS BY SENATOR WILEY ON DAIRYING AND DEFENSE

[Mr. WILEY asked and obtained leave to have printed in the RECORD a radio address delivered by him on August 14, 1941, on the subject Dairying and Defense, which appears in the Appendix.]

CHURCHILL'S MESSAGE TO MANKIND—POEM BY HORACE C. CARLISLE

[Mr. BILBO asked and obtained leave to have printed in the RECORD a poem by Horace C. Carlisle entitled "Churchill's Message to Mankind," which appears in the Appendix.]

REVENUE ACT OF 1941

Mr. GEORGE. Mr. President, I ask unanimous consent that the Senate proceed to the consideration of House bill 5417, the revenue bill.

The VICE PRESIDENT. Is there objection to the request of the Senator from Georgia?

There being no objection, the Senate proceeded to consider the bill (H. R. 5417) to provide revenue, and for other purposes, which had been reported from the Committee on Finance, with amendments.

Mr. GEORGE. I ask unanimous consent that the formal reading of the bill be dispensed with; that it be read for amendment, and that the committee amendments be first considered.

The VICE PRESIDENT. Without objection, the request will be complied with.

Mr. GEORGE. Mr. President, I submit a further unanimous-consent request which I think is in order—that the consideration of amendments over which controversy is likely to arise be postponed until after all amendments which are noncontroversial shall have been disposed of.

The VICE PRESIDENT. Is there objection to the method of procedure requested? Without objection, it is so ordered.

Mr. GEORGE. Mr. President, I wish to make a brief statement concerning the bill. The statement will be brief, because during the debate on the bill all of us on the committee who are here will, of course, be pleased to furnish all the information and answer all the questions that we can. What I shall say now is in the nature of a general statement.

First, I desire to congratulate the Ways and Means Committee of the House under the able leadership of Representative DOUGHTON, its chairman, and the House itself, upon the conscientious consideration given to this tax measure. While the Senate Finance Committee has added some amendments to the bill as it passed the House, the bill in its main features stands as the work of the Ways and Means Committee of the House.

It becomes more apparent each day that no one can accurately foresee even the approximate cost of this national emergency; but it daily becomes increasingly evident also that the American people is making up its collective mind to see this job through, cost what it may. It becomes obvious, too, that the tax burden is of necessity growing more universal, and that its weight must be borne with grim patience and high patriotism. Every individual and every corporation is going to know in the pocketbook that the Nation is in a grave emergency.

As we approach the immediate task of raising these additional tax billions it is, in my best judgment, in the interest of the country as a whole that the tax bill of this period, laying, as it must, a heavy burden on us all, shall nevertheless be written with a spirit of determination not to make its provisions so suddenly drastic as to chill the genius of creative enterprise, or paralyze the driving force of individual effort, and the suggestion will be urged upon us to do precisely that in the interest of raising a larger volume of revenue.

We must hold in sight the fact that the reason why the resources of this Nation are more powerful than those of any country on this earth arises not merely from our natural advantages, our great natural resources, great as they are; our ultimate and invincible strength arises from the spirit, the ambition, and the ingenuity of a free people.

The two most powerful forces of our national life are the strength of private enterprise and a willingness to work, indeed, an eagerness to work, an insistence upon working, combined with the persistent hope of the average American citizen that he may accumulate enough to better himself and provide a degree of security for his family.

For three generations the cost of the preservation of our freedom now must be borne not only by those who are now alive, but by millions yet unborn. Any man who thinks need have little apprehension of the danger of accumulated wealth undermining the foundation of American democracy in the days that lie ahead, but every man who thinks will realize that one of the safest future reservoirs for the Government to draw on to meet the needs of this unprecedented period is a reasonable tax rate, which, although high, will encourage and develop a national annual income of $100,000,000,000, together with the most rigorous effort for economy in every expenditure that is not of the most imperative urgency in the immediate emergency.

It is my hope that we may formulate a policy—and in the bill before us there are only feeble steps in that direction—which will fortify the fiscal foundation of the Treasury, and give added prestige and power to the Government as it girds itself to meet the swiftly developing responsibilities of the crisis confronting our Nation and the free world.

In that connection I desire to say that in its deliberations the committee has given some consideration to new types of taxes. We have considered, in a general way, a general manufacturer's sales tax and a withholding tax upon personal incomes, whether wages, salaries, rents, interest, dividends, or what not. We have likewise given some consideration to a purchase tax, and I think we must ultimately give more consideration to what I am pleased to call a Federal service tax upon the primary profits of industry. By primary profits I do not mean gross income, but the profits after the deduction of those things which necessarily enter into all production, to wit, the cost of raw materials, wages, and rents.

I wish to say now that there is but one inducement in this world as great as the profit motive. The reward for risk taken is the one thing which will cause men to work for other men through enterprise. I must confess that in the tax bill as it passed the House, and in the bill as it is reported to the Senate, it is controlled somewhat, but I hope not unduly.

We face the necessity of planning to get a business boom, if you please, to follow the unnatural rise in employment now taking up all the labor slack, but it is going to start to fall before we are through with this program. The shortages of material, the curtailment of the uses of all kinds of products—even gasoline—will reduce the incomes of countless thousands of people, which will be the forerunner of the next depression. We are due for the skids unless we invite private enterprise to take up the burden of making more employment, and that will not happen unless men can risk their capital with some assurance of reward, some assurance that they may keep a reasonable part of it if they win.

The American people will be either made or broken by what happens in the nature of private enterprise activity, which will be entirely controlled by the tax processes. Nothing else governs this situation. We cannot hold back American ingenuity except by one means. Tax away the incomes of the people, and they will lose all incentive. Free them, and though we take the most heavy taxes, they will take the right way, and they will provide work for men.

Mr. President, we face the acid test of sincerity in the tax bill before us. Of course, as I have already suggested, it is not a perfect measure, but it should be strong enough to stand against unreasonable demands which would destroy the very power of production at a time when our chief, primary, and continuing problem is production, and more production, because in the workshop of America, certainly in the workshop of this, our country—and let us confine ourselves to that—is to be found the answer to the problems we face today, and the means of meeting those problems.

I have said that we now face the acid test of our sincerity, because the bill as it was passed by the House was estimated to produce added revenue, that is to say, new revenue, of $3,216,400,000 annually. The amendments made by the Committee on Finance add $463,400,000 to this figure, bringing the total additional annual yield of new revenue, added revenue, to $3,679,800,000.

If I may digress for just a moment to refer to the actual internal-revenue collections for the fiscal year 1941, and the estimated collections for the fiscal year 1942, under present law, without reading the separate items, I should like to offer for the RECORD the table I have in my hand, and should like to say that the total internal revenue for the fiscal year 1941, excluding employment taxes, totals $6,444,251,917.28. The estimated revenue for the fiscal year 1942, under present law, excluding again employment taxes, totals $8,555,930,000. Including employment taxes the actual collections for the fiscal year 1941 are to be $7,370,108,377.66. Including employment taxes in the estimated revenue for the fiscal year 1942, under present law the total is $9,517,230,000.

There are, of course, certain items in this tabulation which are nonrecurring, and certain items that should be specially spoken of, but for the present purpose the figures are substantially correct.

Mr. President, I ask that the table be printed in the RECORD at this point.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Actual internal-revenue collections for fiscal year 1941, compared with estimated collections for fiscal year 1942

	Actual collections, fiscal year 1941	Estimated, fiscal year 1942, present law
Corporation income taxes	[1] $1,851,987,990.58	[6] $2,641,000,000
Individual income taxes	[2] 1,417,655,126.59	[7] 2,065,000,000
Excess-profits taxes:		
Declared value	25,919,566.83	32,000,000
Vinson Act	2,156,717.81	([8])
Second Revenue Act of 1940	164,308,967.23	679,000,000
Unjust enrichment	9,095,561.51	4,000,000
Capital-stock tax	166,652,639.88	193,400,000
Estate tax	[3] 355,104,033.49	350,000,000
Gift tax	[4] 51,863,714.03	100,000,000
Liquor taxes:		
Distilled spirits (imported and domestic) (excise taxes)	428,641,521.17	458,800,000
Fermented malt liquors	[5] 16,741,027.11	330,800,000
Wines (domestic and imported) (excise tax)	11,423,446.62	15,200,000
Rectification tax	13,460,554.79	12,800,000
Container stamps	10,123,000.68	10,400,000
Special taxes in connection with liquor occupations	11,926,361.64	10,200,000
All other	27,740,266.32	1,360,000
Total liquor taxes	820,056,178.83	839,500,000
Tobacco taxes:		
Cigars (large)	13,400,527.60	13,900,000
Cigarette: (small)	616,667,234.31	645,100,000
Snuff	6,899,820.62	6,800,000
Tobacco (chewing and smoking)	54,927,764.18	56,100,000
Cigarette papers and tubes	1,431,315.35	1,500,000
All other	4,750,228.81	130,000
Total, tobacco taxes	698,076,890.87	723,530,000
Stamp taxes:		
Issues of securities, bond transfers, and deeds of conveyance	22,072,503.40	25,300,000
Stock transfers	12,176,496.92	14,000,000
Silver bullion sales or transfers	51,286.28	60,000
Playing cards	4,756,586.50	4,800,000
Total, stamp taxes	[8] 39,056,966.09	44,180,000
Manufacturers' excise tax:		
Lubricating oils	38,220,844.40	37,100,000
Gasoline	343,021,269.39	399,800,000
Electric energy	47,021,015.62	51,400,000
Tires and inner tubes	51,054,262.05	54,200,000
Automobile trucks	10,746,619.35	12,400,000
Passenger automobiles and motorcycles	81,402,519.06	73,400,000
Parts and accessories for automobiles	13,083,554.90	13,300,000
Radio sets, etc	6,935,182.03	7,900,000
Mechanical refrigerators	13,278,909.68	12,300,000
Firearms, shells, pistols, and revolvers	5,621,074.38	5,400,000
Toilet preparations	6,661,922.05	8,800,000
All other, including repealed taxes	306,718.73	----------
Total, manufacturers' excise taxes	617,353,891.64	676,000,000

[1] Including back taxes amounting to $202,960,938.85.
[2] Including back taxes amounting to $103,389,320.03.
[3] Including back taxes amounting to $133,354,000.
[4] Including back taxes amounting to $9,654,000.
[5] Includes $92.99 collected from repealed tax on sales of produce (future delivery).
[6] Includes estimated back tax collections of $174,000,000.
[7] Includes estimated back tax collections of $87,000,000.
[8] Estimate not available.

Actual internal-revenue collections for fiscal year 1941, compared with estimated collections for fiscal year 1942—Continued

	Actual collections, fiscal year 1941	Estimated, fiscal year 1942, present law
Miscellaneous taxes:		
Telephone, telegraph, radio, and cable facilities, leased wires, etc	$27,331,113.61	$28,000,000
Transportation of oil by pipe line	12,480,585.65	13,300,000
Leases of safe deposit boxes	2,215,898.10	2,200,000
Admissions to theaters, concerts, cabarets, etc	70,963,094.06	83,100,000
Club dues and initiation fees	6,582,649.28	7,000,000
Oleomargarine, etc., including special taxes, and adulterated butter	2,151,335.78	2,300,000
Coconut and other vegetable oils processed	23,185,936.03	4,500,000
Bituminous coal tax	4,522,083.92	4,900,000
Sugar tax	74,698,554.45	62,400,000
All other, including repealed taxes	742,421.50	620,000
Total, miscellaneous taxes	224,873,672.38	208,320,000
Total, internal revenue, excluding employment taxes	6,444,251,917.28	8,555,930,000
Employment taxes	925,856,460.38	[1] 961,300,000
Total, internal revenue, adding employment taxes	7,370,108,377.66	9,517,230,000

[1] As estimated in Budget, January 1942.

Mr. GEORGE. Mr. President, the added revenue under the bill now reported by the committee is estimated at $3,679,000,000, which, added to the estimated revenue for the fiscal year 1942 under present law, will make a total of over $13,000,000,000. The sum is a staggering one. Undoubtedly a heavy burden will be placed upon all our people. At the same time the total estimated revenue, even when adding the amount which it is estimated will be collected under the bill which has been reported by the Finance Committee and is now before the Senate, will not quite meet the formula of two-thirds payment upon our current spending out of taxes and one-third out of borrowed money. But if it be true, as some of us hope and think, that the actual yield during the full year under the bill now reported to the Senate plus the yield under existing law will run above the $13,000,000,000 estimated, as I have already stated, then we will not be far below the two-thirds and one-third formula, provided there is some retrenchment in the nondefense spending, and provided that expenditures for all purposes are held within as strict bounds as the necessities facing us will enable us to hold them.

The added revenue under the Finance Committee bill comes largely, or I should say mainly, from three sources—approximately $19,000,000 from the corporate normal income tax, approximately $120,500,000 from the corporate surtax, and approximately $332,400,000 from individual income taxes, those increases last mentioned being increases over the House bill, and not the total burden placed either upon corporations or individuals under the Senate bill.

Mr. President, if I may call attention to one further table, without reading it in detail, I will do so at this point, and I call attention now to income taxes alone. The table sets forth the estimated calendar year 1941 liabilities under present law and estimated increased income-tax liabilities for a full year under the provisions of the Senate bill at levels of income estimated for the calendar year 1941. It also shows the estimated increase under the House bill, but I will not refer to that at the moment.

Mr. President, I ask that the table be printed in the RECORD at this point.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

Income taxes—Estimated calendar year 1941 liabilities under present law and estimated increased income-tax liabilities under a full year effect of the income-tax provisions of the House bill and the Senate bill at levels of income estimated for calendar year 1941

[In thousands of dollars]

	Estimated liabilities under existing law	Estimated increase or decrease under House bill	Total liabilities under House bill and existing law	Estimated increase or decrease under Finance Committee bill	Total liabilities under Finance Committee bill and existing law
Income taxes:					
Corporation normal	2,939,200	−520,100	2,419,100	−501,100	2,438,100
Corporation surtax		644,700	644,700	765,200	765,200
Individual	2,223,300	864,800	3,088,100	1,197,200	3,420,500
Back taxes	260,000		260,000		260,000
Excess-profits tax	1,026,400	1,198,300	2,224,700	1,130,600	2,157,000
Declared value excess profits	37,000		37,000		37,000
Unjust enrichment	4,000		4,000		4,000
Total, income taxes	6,489,900	2,187,700	8,677,600	2,591,900	9,081,800

Mr. GEORGE. Mr. President, from the corporate normal income the estimated liability under existing law for the calendar year 1941 is $2,939,200,000. Under the Senate bill the corporate normal income is minus $501,100,000, which will be accounted for in the next figure given.

The total liability under the Finance Committee bill and existing law will be, on corporate normal income, $2,438,100,000.

By the corporate surtax—which does not now exist, but which has been imposed both under the House bill and under the Senate bill—the estimated increase under the Finance Committee bill is $765,200,000, and the total liability under the Finance Committee bill and the existing law is, of course, the same amount, because in the present law there is no surtax on corporate income.

Individual incomes. Estimated liability under existing law, $2,223,300,000. Under the Senate bill the estimated increased liability is at $1,197,200,000. The increase—Senators, note that—is $1,197,200,000 over present law, making a total tax on personal incomes under the Finance Committee bill and present law of $3,420,500,000.

The estimated liability under existing law for excess-profits tax is $1,026,400,000. The estimated increase under the Senate Finance Committee bill is $1,130,600,000. This makes a total of $2,157,000,000 on excess-profits tax.

On declared-value excess profits the tax liability is $37,000,000 under present law, which is not affected by any increase in the Finance Committee bill. Under the item of "Unjust enrichment" the tax liability is only $4,000,000.

So we have as the estimated liabilities of the taxpayers under existing law, plus the bill as amended in the Finance Committee, a total of income taxes as follows:

Estimated liabilities under existing law, $6,489,900,000. Total liabilities under the Finance Committee bill and existing law, $9,081,800,000.

Mr. President, I ask the Senate to note that the tax on corporations under this estimate is as follows:

Two billion four hundred and thirty-eight million one hundred thousand dollars normal income corporate tax.

Seven hundred and sixty-five million two hundred thousand dollars corporate surtax.

Two billion one hundred and fifty-seven million dollars excess-profits tax.

Thirty-seven million dollars declared-value excess profits.

Four million dollars unjust enrichment.

The total liability of corporations is $5,401,300,000.

The first major change made in the bill now presented to the Senate is in the personal-income-tax section. As we all remember, under existing law the personal exemptions are $800 for a single person and $2,000 for a married person without dependents. Under the terms of the bill the exemptions are reduced by $50 in the case of a single person—from $800 to $750—and by $500 in the case of a married person or head of a family—from $2,000 to $1,500.

This change in the personal income-tax law creates an additional liability of approximately $303,000,000. About $49,000,000 of this amount will be collected from new taxpayers, who will be brought in by virtue of lowering the exemption. Some $254,000,000 will be payable by the same taxpayers who now pay personal income taxes under existing law. So, lowering the exemptions, or broadening the base, as we speak of it, will have the effect of increasing the tax liability on individual incomes by some $303,000,000, as estimated by the Treasury officials.

It must be borne in mind that this broadening of the base does not place any great added burden upon the new taxpayers. On page 7 of the bill will be found a table which may be conveniently described as the short form of making income-tax returns. Under the terms of an amendment inserted in the bill, the short form may be used by the individual taxpayer whose total income consists of wages, salaries, or compensation for personal services, dividends, interest, rents, annuities, or royalties. The short form for the return is optional with the taxpayer whose gross income is $3,000 or less. It may not be used by any taxpayer whose income is derived from sources other than those already enumerated, or whose income exceeds $3,000 per year.

Looking at the short form of return, it will be seen that on an income from $1 to $750 no tax is imposed. This is because the exemption allowed a single person is $750. On incomes from $750 to $775 the tax for a single person is only $1; from $775 to $800, the present exemption, the tax is only $2. From $800 to $825 the tax for a single person is only $3. Not until an income between $825 and $850 is reached does the tax reach $5. In simple language, for the first time the tax becomes more than 1 cent a day.

Not until the income reaches $1,500 is there any tax in the case of the head of a family or a married person. From $1,500 to $1,525 the tax is only $1; from $1,525 to $1,550 the tax on the head of a family or a married person is only $2, and so on up to the present exemption of $2,000, when the tax becomes $37. On an income of $1,800 in the case of a married person, the tax is $22.

Whatever may be said hereafter in debate, no one who fairly considers these slight liabilities to the new taxpayers who will be brought into the taxing system by virtue of the lowering of the exemptions can justly complain of the small tax to which they will be subjected.

I should say, in passing, that the short form for the return takes into consideration what the Treasury has found to be the average deduction of those who may be described as falling in the lower brackets; that is, those whose income does not exceed $3,000.

It must also be borne in mind that the short form is optional. The taxpayer may use it. If he uses it for a certain year, he is precluded from changing over and calculating the tax another way for that particular year. The next year he may use it again or he may compute his tax in the ordinary way.

One change has been made that should be noted, and that is this: A married person—let us say, a widower—who has one child is not entitled to take a deduction of $400 for the child because the child brings him into the category or class of the head of a family. In other words, a widower with one child under 18 years of age dependent upon the father becomes the head of a family, and is entitled to an exemption not of $750 but of $1,500. If he has two children in the same circumstances, he is entitled to an exemption of $1,500, plus $400, or $1,900. If he has three children, his exemption is increased by the further addition of $400 for the additional child. The head of a family is, of course, entitled not only to the $1,500 exemption but to the exemption in the present law of $400 for each dependent child under 18 years of age, or other dependents for whom he is allowed the deduction.

Another important change recommended by the committee and included in the bill, applicable to individual incomes, is the so-called tax on incomes from community property. That, of course, is a controversial provision.

Ever since the advent of the income tax, the disparity in the taxation of income in the community-property States as compared with that in the non-community-property States has caused considerable concern. This situation has become more accentuated as the graduated surtax rates have been increased from time to time; and it becomes more important because of the rather drastic increases made in the present bill. Married persons in the community-property States under existing law are able to effect substantial tax savings as compared with married persons in the other States. Remedies for this inequitable situation have been frequently recommended to the Congress by the Treasury Department and by various other tax experts. With the substantial increases in the surtax rates contained in the bill these inequities become more apparent and their termination more desirable.

Consequently, the committee bill provides a method whereby taxpayers in community-property States are placed on a parity with all other taxpayers and will pay the same amount of tax as do individuals similarly situated in the non-community-property States.

I will read to the Senate the amendment which is found on page 32 of the bill, and I call especial attention to it:

For the purpose of determining the income-tax liability of any individual:

(a) Income earned by each spouse (whether or not treated as community property under the State law) shall be considered as the income of the earner thereof.

That is to say, the salary of a husband and the salary of a wife shall remain separate, and shall be separately returned. The income of a doctor, of a dentist, or of a lawyer shall be considered as the income of the actual earner, and shall remain separate.

(b) Income derived from property of the marital community—

Now, note—

(except such property as constitutes either income derived from the separate property of either spouse or property acquired therewith)—

That is to say, with the income—

shall be considered as the income of the spouse who has the management and control thereof under the law of the jurisdiction in which the marital community exists.

The third section I need not read, because the whole meat of it is in these two.

I know very well, and I entirely respect, the views and opinions of Senators who come from the so-called community-property States. I understand exactly their position. There is no purpose on the part of the Finance Committee or of the Congress to interfere in any single respect with the law of a State so far as it controls the property rights of the wife or of the husband, except in one particular, and that is for Federal tax purposes. The person who earns the money must return it as his income; and for Federal tax purposes the income from the community property, but not including the income from the separate property of the wife or property purchased by her out of the income from her separate property, must be returned by the one who has the management and control of the property under the law of the jurisdiction in which such marital community exists.

There is no attempt to invade the rights of the States; but the Congress is now doing what in my opinion it should have done from the first—determining the liability to Federal taxes not upon the laws of different jurisdictions but upon the Congress' own declaration of how incomes, from whatever source derived, should be made taxable, and to whom those incomes should be made taxable.

I dare say that the Senate will hear a great deal of argument on the constitutionality of this part of the bill; but to me there is no constitutional question involved in it. So long as the Federal Government taxes on the basis of the varying laws of the several States, of course the community-property States are entitled to special treatment, because under the laws of their States there are different rules governing the income after marriage. But when the Federal Government exercises its undoubted plenary power to tax earnings, in whatever State they may be earned, to the person who actually produces them, there can be no question of constitutionality. Not only that, but I do not see how there can be any question as to the morality of this amendment, its fairness, and its justice. Let me give an illustration. Here is a Senator from a community-property State, whose total net taxable income consists alone of the salary paid him by the Federal Government, $10,000; here is another Senator from a non-community-property State, whose total net taxable income consists only of the $10,000 paid him by the Federal Government; yet the Senator who lives in the community-property State may split his income, because, under the law of the State, the wife has a vested right in the income, and he may escape with more than $300 saving as against the Senator who lives in the non-community-property State.

So the committee has recommended that earned income be taxed to the person who earns it, and that the income of property be taxed to the person who manages and controls it, provided always that there is excluded the income from the separate property of the husband or the wife and the income from property purchased out of the income of the separate property of husband or wife.

Mr. OVERTON. Mr. President, will the Senator yield, or did he ask not to be interrupted?

Mr. GEORGE. No; I did not ask not to be interrupted. I will be glad to yield if the Senator wishes me to do so. I was about to pass on to another point.

Mr. OVERTON. The marital partnership existing in the community-property-law States is an involuntary copartnership forced upon the husband and the wife, by law, by virtue of their marital relations?

Mr. GEORGE. That is by virtue of the law of the State.

Mr. OVERTON. Yes; by virtue of the law of the State. Whether they desire it or whether they do not desire it, it is compulsory that there should be a marital copartnership.

Mr. GEORGE. Yes; I understand that.

Mr. OVERTON. I was following the argument made by the able Senator from Georgia, and I was wondering whether the committee had taken into consideration whether the principle which he is now advocating should not also apply, and perhaps a fortiori, to voluntary partnerships which are entered into, so that the tax liability would be upon the managing head of any partnership.

Mr. GEORGE. Oh, no; because the law looks right through the partnership, and it taxes to each partner his proportion of the earnings of the partnership. In other words, this amendment does exactly what is done to a partnership in a non-community-property State or in a community-property State, as for that, where the partnership is not between husband and wife.

Mr. OVERTON. Is it not true that, under existing law, each member of the marital copartnership is taxed for his or her portion of the revenue of the copartnership?

Mr. GEORGE. Exactly.

Mr. OVERTON. And makes returns on it?

Mr. GEORGE. And that enables the two to reduce their tax liability.

Mr. OVERTON. I understand that. Under existing law revenue derived by a copartner out of the business of the copartnership is taxed against the copartner.

Mr. GEORGE. Exactly, because the partnership, as such, does not pay the tax.

Mr. OVERTON. I understand that. Under the bill as reported by the Senate Committee on Finance that principle would continue so far as voluntary partnerships are concerned, so far as partnerships generally are concerned.

Mr. GEORGE. Certainly.

Mr. OVERTON. What I am asking the Senator is why should not the argument and the reasoning which he has made in support of forcing a tax liability upon the managing head of the involuntary marital copartnership apply with equal, if not greater, force to imposing the same liability upon the managing head of a voluntary copartnership anywhere situated?

Mr. GEORGE. I will be glad to answer the Senator. This amendment applies the identical rule that is applied to partnerships. If one partner owns 99 percent of the interest in a partnership, and the firm makes a hundred dollars, he must return $99. The husband and wife, if they are both owners, under this amendment must return their income separately, but if the husband is the earner, and has earned the entire income, it must be taxable to him, that is the personal income. When it comes to the question of the community property in which it is said a partnership exists under the law of every community-property State, one spouse, at least under general rules and under ordinary circumstances, is given the management of that property, given the right to control it the right to use it, and the right to deal with it, practically as if it were his own. I do not believe anyone can say that such a partnership is comparable to a partnership in the ordinary sense where either partner can demand an accounting at any time and both are liable personally for the partnership debts. I am unable to find under the community-property system any liability against the separate property of the wife for the debts of the husband. This amendment is leveled only at the taxation of the income of the property by the Federal Government, and does not interfere with any of the property interests of the wife in the community property, even though it consists of salary or other earned income of the husband.

But the Senator asks, since there is an involuntary partnership which produces this result, then, why not let the husband and wife, as if they were not related at all, each make a return of the marital income—that is, make a separate return—as I understand the position which the Senator takes?

There are many answers to that question. While it is said that there is a complete partnership in the community-property States, those States whose laws I have had an opportunity to examine do not make the wife's separate property liable for the debts of the community-property estate, if I make myself clear. The wife's separate property cannot be held liable for a loss incurred by the husband in the management and in the conduct of the community property. Under an ordinary partnership, each partner can demand an accounting at any time. They are not, therefore, partners in the same sense in which the ordinary voluntary partnership exists. Furthermore, it is very difficult for a family partnership in a non-community-property State to be recognized as such for Federal-tax purposes unless the partners contribute either capital or services.

I will discuss this matter more fully at a little later time.

Mr. OVERTON. I had not really desired to interrupt the Senator in his presentation, but I simply wanted to know if the committee had considered broadening the principle he was advocating so as to extend it to partnerships generally?

Mr. GEORGE. No; the committee did not consider that, because there is not any occasion for it, as I have just tried to indicate. A word further, and then I will pass from the consideration of this particular amendment. It may be said, and will, undoubtedly, be said, that this is but the camel's nose under the tent, and that the next move will be what was attempted in the so-called compulsory joint-return provision of the House bill.

The joint return attempted to combine the separate incomes of husband and wife and measure the tax with reference to income over which the husband had no management or control. This amendment takes care of that situation, because it is provided in paragraph (b) that—

> Income derived from property of the marital community (except such property as constitutes either income derived from the separate property of either spouse or property acquired therewith) shall be considered as the income of the spouse who has the management and control thereof under the law of the jurisdiction in which the marital community exists.

The exception operates directly against the argument, born of fear, that hereafter, if this amendment be adopted, all married persons in this country, wherever they reside, will be forced to make joint returns, because it recognizes the separate property of the wife, whether she inherited it prior to marriage or subsequent to marriage, whether it came from her father or mother or from an aunt or an uncle, or whether she earned it, and moreover recognizes that she has the right to enjoy that income, and that she cannot be compelled to join in a return with the husband of that income.

Mr. ELLENDER. I would like to inquire from the Senator if the committee gave consideration to the fact that in Louisiana at the death of either spouse the community property belongs half to the surviving spouse and half to the surviving children, that at all times the property is really and actually owned by both in the proportion of one-half to each?

Mr. GEORGE. Yes; that matter was brought to our attention.

Mr. ELLENDER. As I understood the Senator, the theory upon which the committee imposed this additional burden on community-property States is that since the husband manages the community property, that fact in itself should be a sufficient reason to impose a tax upon it. On the theory that since the husband has control of it, manages it, and does as he pleases with it, he is the owner and therefore should bear all taxes thereon.

Now I desire to ask the Senator another question. Will he agree with me that in most States the husband manages the separate estate of the wife?

Mr. GEORGE. Oh, yes; but it is not a question of who manages it. It may be managed through any sort of an agent. The question is, who has the right of management; who has the right to control it; who has the right to deal with it very much as if it were his own?

Mr. ELLENDER. But, as I understand, because of the fact that the husband, let us say in Louisiana, manages the community property, although the wife owns half thereof, you want to impose a tax; but in common-law States, where the husband manages the separate estate of the wife, no tax is levied.

Mr. GEORGE. Oh, no; there is nothing immoral in this thing. Just as surely

as we stand on the floor of the Senate, all the moralities, in my judgment, are in favor of the tax we have recommended.

In the common-law States the husband may manage the wife's property, but he is merely acting as her agent under a voluntary arrangement.

Mr. ELLENDER. I understand that. The authority in both cases is about the same.

Mr. GEORGE. She could get anyone else to manage it; and that, of course, would not make her separate property taxable to the husband nor the income of it taxable to the husband.

We gave consideration to that subject. I will get back to it after awhile when we reach that amendment.

Mr. ELLENDER. A while ago the Senator stated, as I understood him, that the fact that the husband has the management of the community estate of itself gives the right to tax it as a whole.

Mr. GEORGE. Oh, no; to the spouse who has the management and control of the property; but the fact must always be kept in mind that by virtue of the law of the State the right of management and the right of control is involved, and not the mere physical management or control of the property. In the common-law States nothing is involved but physical control or physical management, which, of course, any owner may exercise through any agent of his own choosing or selection. For example, in *Matern* v. *Com.* (61 Fed. (2d) 663), the circuit court held that where title to property was in the wife, but she permitted her husband to manage it because of her inexperience, the income from the property was properly taxable to the wife. She was not deprived of the enjoyment of the income, because she could select any agent of her own choosing to manage it and require the fruits to be turned over to her.

Mr. ELLENDER. In all the common-law States, though, the husband manages the wife's estate to the same extent, I dare say, as the husband manages the wife's share in a community-property State.

Mr. GEORGE. I would not doubt it for a moment. I am sure the Senator is right.

Mr. ELLENDER. Why not make the taxes the same, then?

Mr. GEORGE. The taxes are the same.

Mr. ELLENDER. They are not.

Mr. GEORGE. Oh, yes; they are. That is what we are trying to do right now. In the common-law States the wife is taxable upon her property, and the husband is taxable upon his property; and the wife cannot build up an estate out of the wages and salaries and income of the husband and call it community property and thereby enable her to split that income in two and take a part of it to reduce the total tax.

Mr. ELLENDER. The only reason why they split it in two is because the law recognizes it as property belonging to husband and wife.

Mr. GEORGE. I understand. I am not quarreling with the law of Louisiana or Texas or any other State. I recognize the right of the State to make its own laws.

Mr. ELLENDER. I do not see how the Senator can take the position, then, that he is treating all the States alike.

Mr. GEORGE. Exactly alike. That is what we are aiming to do.

Mr. ELLENDER. I do not desire to question the Senator further, but I propose to discuss the matter fully in my own time.

Mr. GEORGE. Another important provision of the bill is one relating to payments for alimony and separate maintenance. Without any lengthy discussion of it at this time, I will state that under the existing law periodic payments of alimony or for separate maintenance are not deductible from the gross income of the spouse making such payments and are not taxable to the spouse receiving them. Thus, for example, a husband is taxed upon his entire income even though a considerable amount thereof may be going periodically to his spouse or to his former spouse under a court decree or under a written instrument incident to a divorce or separation. This situation has resulted in substantial hardship in certain cases. The committee bill therefore provides that periodic payments of alimony or for separate maintenance—and I think we must bear in mind the exact provision; that is, for alimony or separate maintenance—shall, in taxable years beginning after December 31, 1941, be includible in the gross income of the recipient and shall be deductible from the gross income of the payor. Likewise, in the case of trusts for the payment of alimony or separate maintenance, the bill provides that the trust income shall be taxed to the beneficiary, rather than to the grantor.

Another important amendment made in the bill to which I direct attention without going into it in detail is that the surtax on corporate income, which was fixed by the House at 5 percent on incomes of $25,000 or less and 6 percent on incomes of more than $25,000, has been changed by the Senate committee so that the surtax is placed at 6 percent on the first $25,000 of corporate income and 7 percent on the balance.

The committee made another change in the bill which the Senate will observe running throughout the bill wherever applicable—that is, the committee integrated the 10-percent defense tax which was imposed in the Revenue Act of 1940 on personal incomes and on corporate incomes, and other taxes into the rate itself.

Another important change in the House bill was made by the committee in eliminating the so-called special 10-percent excess-profits tax on corporations using the invested capital credit system. We had great sympathy with the stated objectives and purposes of the Treasury, but we thought that for sound taxation purposes this special 10-percent excess-profits tax could not be justified. So, in its report to the Senate, the committee asks for the elimination of this special 10-percent excess-profits tax. That, of course, does affect the revenue to some extent—approximately somewhere in the neighborhood of $50,000,000, I believe—and it accounts in part for the fact that the Senate committee raised the surtax rate on normal or corporate income to 6 and 7 percent—1 percent above the House rate.

There is another matter of importance in the bill—the capital-stock tax. The capital-stock tax was raised by the House from $1.10 to $1.25 per thousand. The Senate committee report gives to the corporations the advantage of an annual declaration of value. Corporations are under existing law required to declare a value for capital-stock-tax purposes every third year, and the value thus fixed runs through the two succeeding years until the third year comes around again. In view of the extreme difficulty of foretelling or foreknowing with any degree of accuracy how a corporation will fare under existing conditions, it was thought wise by the committee to permit an annual declaration of value.

The committee also extended by 30 days the period in which the annual declaration is to be made, but this is for the current year only.

There are a great many excise taxes in the bill. It will be seen at a glance, as the separate sections are considered, that some of the excise taxes in existing law have had their rates increased or their exemptions allowed. In a number of other cases a new excise tax has been imposed, and in three instances—in the case of furs, jewelry, and cosmetics—the tax has been applied to the retail sales of those particular articles. In this respect we did not change the provisions of the House bill.

The Senate committee has eliminated certain miscellaneous taxes and excise taxes imposed by the House in the tax bill now before us. The committee eliminated the soft-drink tax, because it was believed that the House tax unduly penalized the small bottlers. We also eliminated the so-called billboard tax, or the tax on outdoor advertising, and the tax on radio broadcasting. Those taxes were entirely eliminated.

The Senate committee added only one new excise tax. This was a manufacturer's excise tax of 10 percent on the sale of electric-light bulbs. The committee did, however, increase some existing rates which should be called to the attention of the Senate at this time, and with this I shall be through.

The committee increased the admission-tax rate by approximately 50 percent, as I interpret the tax. The committee likewise increased the tax on local telephone bills from 5 to 10 percent, and made other changes in the telegraph, telephone, and radio taxes.

The committee relieved certain articles relatively small in point of value of one or more of the excise taxes imposed by the House.

Finally, the Senate committee increased the wine tax from 8 cents on wines containing not more than 14 percent of alcohol by volume to 10 cents per gallon. Then, on wines containing not more than 21 percent of alcohol by volume, the tax was raised to 35 cents per gallon. The House rates were 8 percent in the first classification and 24 percent in the second classification. In a third classification the House rate was 50 cents per wine-gallon on all wines

containing 21 percent and up to 24 percent of alcohol by volume. The Senate committee increased that rate to 65 cents and made an increase on champagnes and some other types described in the excise-tax provision.

The committee also increased the House rate on brandy by taxing it at the full rate applicable to other distilled spirits, that is to say, $4 per gallon.

Mr. President, I believe the statement I have made covers, in brief, the substantial questions involved and the material changes made by the Senate committee. Of course, there are a great many minor changes, which require no more explanation than a mere reading of them when they are reached.

Perhaps I should suggest the absence of a quorum before we proceed with the amendments.

The VICE PRESIDENT. The clerk will call the roll.

The Chief Clerk called the roll, and the following Senators answered to their names:

Adams	Davis	Nye
Aiken	Downey	O'Daniel
Andrews	Eastland	O'Mahoney
Austin	Ellender	Overton
Bailey	George	Peace
Bankhead	Gerry	Radcliffe
Barbour	Gillette	Rosier
Barkley	Green	Russell
Bilbo	Guffey	Schwartz
Brewster	Hatch	Smathers
Bridges	Hayden	Smith
Brooks	Herring	Spencer
Bulow	Hill	Taft
Bunker	Holman	Thomas, Idaho
Burton	Johnson, Colo.	Thomas, Utah
Butler	Kilgore	Tobey
Byrd	La Follette	Tunnell
Capper	Langer	Tydings
Caraway	Lee	Vandenberg
Clark, Idaho	McCarran	Van Nuys
Clark, Mo.	McFarland	Walsh
Connally	McNary	Wiley
Danaher	Maloney	

The PRESIDING OFFICER (Mr. McFARLAND in the chair). Sixty-eight Senators have answered to their names. A quorum is present.

The clerk will state the first committee amendment.

The first amendment of the Committee on Finance was, under the heading "Title I—Individual and Corporation Income Taxes," on page 4, after line 9, to strike out:

If the surtax net income is—	The surtax shall be—
Not over $2,000	5% of the surtax net income.
Over $2,000 but not over $4,000.	$100, plus 8% of excess over $2,000.
Over $4,000 but not over $6,000.	$260, plus 11% of excess over $4,000.
Over $6,000 but not over $8,000.	$480, plus 15% of excess over $6,000.
Over $8,000 but not over $10,000.	$780, plus 19% of excess over $8,000.
Over $10,000 but not over $12,000.	$1,160, plus 22% of excess over $10,000.
Over $12,000 but not over $14,000.	$1,600, plus 25% of excess over $12,000.
Over $14,000 but not over $16,000.	$2,100, plus 28% of excess over $14,000.
Over $16,000 but not over $18,000.	$2,660, plus 31% of excess over $16,000.
Over $18,000 but not over $20,000.	$3,280, plus 33% of excess over $18,000.
Over $20,000 but not over $22,000.	$3,940, plus 36% of excess over $20,000.
Over $22,000 but not over $26,000.	$4,660, plus 39% of excess over $22,000.
Over $26,000 but not over $32,000.	$6,220, plus 42% of excess over $26,000.
Over $32,000 but not over $38,000.	$8,740, plus 45% of excess over $32,000.
Over $38,000 but not over $44,000.	$11,440, plus 48% of excess over $38,000.
Over $44,000 but not over $50,000.	$14,320, plus 50% of excess over $44,000.
Over $50,000 but not over $60,000.	$17,320, plus 53% of excess over $50,000.
Over $60,000 but not over $70,000.	$22,620, plus 55% of excess over $60,000.
Over $70,000 but not over $80,000.	$28,120, plus 57% of excess over $70,000.
Over $80,000 but not over $90,000.	$33,820, plus 59% of excess over $80,000.
Over $90,000 but not over $100,000.	$39,720, plus 61% of excess over $90,000.
Over $100,000 but not over $150,000.	$45,820, plus 62% of excess over $100,000.
Over $150,000 but not over $200,000.	$76,820, plus 63% of excess over $150,000.
Over $200,000 but not over $250,000.	$108,320, plus 64% of excess over $200,000.
Over $250,000 but not over $300,000.	$140,320, plus 66% of excess over $250,000.
Over $300,000 but not over $400,000.	$173,320, plus 68% of excess over $300,000.
Over $400,000 but not over $500,000.	$241,320, plus 70% of excess over $400,000.
Over $500,000 but not over $750,000.	$311,320, plus 71% of excess over $500,000.
Over $750,000 but not over $1,000,000.	$488,820, plus 72% of excess over $750,000.
Over $1,000,000 but not over $2,000,000.	$668,820, plus 73% of excess over $1,000,000.
Over $2,000,000 but not over $5,000,000.	$1,398,820, plus 74% of excess over $2,000,000.
Over $5,000,000	$3,618,820, plus 75% of excess over $5,000,000.

And insert:

If the surtax net income is—	The surtax shall be—
Not over $2,000	6% of the surtax net income.
Over $2,000 but not over $4,000.	$120, plus 9% of excess over $2,000.
Over $4,000 but not over $6,000.	$300, plus 13% of excess over $4,000.
Over $6,000 but not over $8,000.	$560, plus 17% of excess over $6,000.
Over $8,000 but not over $10,000.	$900, plus 21% of excess over $8,000.
Over $10,000 but not over $12,000.	$1,320, plus 25% of excess over $10,000.
Over $12,000 but not over $14,000.	$1,820, plus 29% of excess over $12,000.
Over $14,000 but not over $16,000.	$2,400, plus 32% of excess over $14,000.
Over $16,000 but not over $18,000.	$3,040, plus 35% of excess over $16,000.
Over $18,000 but not over $20,000.	$3,740, plus 38% of excess over $18,000.
Over $20,000 but not over $22,000.	$4,500, plus 41% of excess over $20,000.
Over $22,000 but not over $26,000.	$5,320, plus 44% of excess over $22,000.
Over $26,000 but not over $32,000.	$7,080, plus 47% of excess over $26,000.
Over $32,000 but not over $38,000.	$9,900, plus 50% of excess over $32,000.
Over $38,000 but not over $44,000.	$12,900, plus 53% of excess over $38,000.
Over $44,000 but not over $50,000.	$16,080, plus 55% of excess over $44,000.
Over $50,000 but not over $60,000.	$19,380, plus 57% of excess over $50,000.
Over $60,000 but not over $70,000.	$25,080, plus 59% of excess over $60,000.
Over $70,000 but not over $80,000.	$30,980, plus 61% of excess over $70,000.
Over $80,000 but not over $90,000.	$37,080, plus 63% of excess over $80,000.
Over $90,000 but not over $100,000.	$43,380, plus 64% of excess over $90,000.
Over $100,000 but not over $150,000.	$49,780, plus 65% of excess over $100,000.
Over $150,000 but not over $200,000.	$82,280, plus 66% of excess over $150,000.
Over $200,000 but not over $250,000.	$115,280, plus 67% of excess over $200,000.
Over $250,000 but not over $300,000.	$148,780, plus 69% of excess over $250,000.
Over $300,000 but not over $400,000.	$183,280, plus 71% of excess over $300,000.
Over $400,000 but not over $500,000.	$254,280, plus 72% of excess over $400,000.
Over $500,000 but not over $750,000.	$326,280, plus 73% of excess over $500,000.
Over $750,000 but not over $1,000,000.	$508,780, plus 74% of excess over $750,000.
Over $1,000,000 but not over $2,000,000.	$693,780, plus 75% of excess over $1,000,000.
Over $2,000,000 but not over $5,000,000.	$1,443,780, plus 76% of excess over $2,000,000.
Over $5,000,000	$3,723,780, plus 77% of excess over $5,000,000.

Mr. McNARY. Mr. President, the statement was made today by the able Senator in charge of the bill, that all controversial amendments would go over. I think that amendment falls in the controversial amendment classification, and I ask that it go over.

Mr. GEORGE. Mr. President, does the Senator from Oregon desire that the first amendment go over?

Mr. McNARY. Yes; that is an amendment dealing with the surtax.

Mr. GEORGE. On the individual income taxes?

Mr. McNARY. I think so.

Mr. LA FOLLETTE. Mr. President, perhaps the Senator from Georgia might make a brief statement concerning the amendment. This is the amendment which simply absorbs the 10-percent defense tax into the existing surtax rates.

Mr. McNARY. Mr. President, I assumed that that particular amendment was a controversial matter. If it is solely apart from the excess-profits tax, and the normal tax, and other individual taxes, including those that are affected by lowering the income brackets, I would have no objection to consideration of the amendment at this time.

Mr. GEORGE. I think it is true that it only changes the surtax rate to absorb the 10-percent tax known as the defense tax.

Mr. McNARY. Mr. President, under that statement I have no objection to the present consideration of the amendment.

The PRESIDING OFFICER. The question is on agreeing to the first committee amendment.

The amendment was agreed to.

Mr. GEORGE. Mr. President, the next committee amendment, on page 6, I take it is not controversial. It is only an optional provision, and I take it that it is not at all controversial. It simply relates to the optional short form for computing the income tax of the small taxpayer.

The PRESIDING OFFICER. The clerk will state the next committee amendment.

The next amendment was, on page 6, after the table, to insert the following section:

SEC. 102. Optional tax on individuals with certain gross income of $3,000 or less.

(a) Optional tax: The Internal Revenue Code is amended by inserting after section 396 the following new supplement:

"Supplement T—Individuals with gross income from certain sources of $3,000 or less

"SEC. 400. Imposition of tax.

"In lieu of the tax imposed under sections 11 and 12, an individual may elect, for each taxable year, to pay the tax shown in the following table if his gross income for such taxable year is $3,000 or less and consists wholly of one or more of the following: Salary, wages, compensation for personal services, dividends, interest, rent, annuities, or royalties:

If the gross income is over—	But not over—	The tax shall be—	
		Single person (not head of a family)	Head of family or married person
$1	$750	$0	$0
$750	775	1	0

If the gross income is over—	But not over—	The tax shall be— Single person (not head of a family)	Head of family or married person
$775	$800	$2	$0
$800	825	3	0
$825	850	5	0
$850	875	7	0
$875	900	9	0
$900	925	11	0
$925	950	14	0
$950	975	16	0
$975	1,000	18	0
$1,000	1,025	20	0
$1,025	1,050	22	0
$1,050	1,075	24	0
$1,075	1,100	26	0
$1,100	1,125	29	0
$1,125	1,150	31	0
$1,150	1,175	33	0
$1,175	1,200	35	0
$1,200	1,225	37	0
$1,225	1,250	39	0
$1,250	1,275	42	0
$1,275	1,300	44	0
$1,300	1,325	46	0
$1,325	1,350	48	0
$1,350	1,375	50	0
$1,375	1,400	52	0
$1,400	1,425	55	0
$1,425	1,450	57	0
$1,450	1,475	59	0
$1,475	1,500	61	0
$1,500	1,525	63	1
$1,525	1,550	65	2
$1,550	1,575	68	3
$1,575	1,600	70	5
$1,600	1,625	72	6
$1,625	1,650	74	7
$1,650	1,675	76	9
$1,675	1,700	78	11
$1,700	1,725	80	13
$1,725	1,750	83	15
$1,750	1,775	85	17
$1,775	1,800	87	19
$1,800	1,825	89	22
$1,825	1,850	91	24
$1,850	1,875	93	26
$1,875	1,900	96	28
$1,900	1,925	98	30
$1,925	1,950	100	32
$1,950	1,975	102	35
$1,975	2,000	104	37
$2,000	2,025	106	39
$2,025	2,050	109	41
$2,050	2,075	111	43
$2,075	2,100	113	45
$2,100	2,125	115	48
$2,125	2,150	117	50
$2,150	2,175	119	52
$2,175	2,200	122	54
$2,200	2,225	124	56
$2,225	2,250	126	58
$2,250	2,275	128	60
$2,275	2,300	130	63
$2,300	2,325	132	65
$2,325	2,350	134	67
$2,350	2,375	137	69
$2,375	2,400	139	71
$2,400	2,425	141	73
$2,425	2,450	143	76
$2,450	2,475	145	78
$2,475	2,500	147	80
$2,500	2,525	150	82
$2,525	2,550	152	84
$2,550	2,575	154	86
$2,575	2,600	156	89
$2,600	2,625	158	91
$2,625	2,650	160	93
$2,650	2,675	163	95
$2,675	2,700	165	97
$2,700	2,725	167	99
$2,725	2,750	169	102
$2,750	2,775	172	104
$2,775	2,800	174	106
$2,800	2,825	177	108
$2,825	2,850	180	110
$2,850	2,875	183	112
$2,875	2,900	186	114
$2,900	2,925	189	117
$2,925	2,950	191	119
$2,950	2,975	194	121
$2,975	3,000	197	123

In applying the above schedule to determine the tax of a taxpayer with one or more dependents there shall be subtracted from his gross income $400 for each such dependent.

"SEC. 401. Rules for application of section 400.

"For the purposes of this supplement—

"(a) Definitions—

"(1) 'Married person' means a married person living with husband or wife.

"(2) 'Dependent' means a person (other than husband or wife) dependent upon and receiving his chief support from the taxpayer if such dependent person is under 18 years of age or is incapable of self-support because mentally or physically defective, excluding as a dependent, in the case of a head of a family, one who would be excluded under section 25 (b) (2) (B).

"(b) Determination of status: The determination of whether a person is living with husband or wife, is a head of a family, or is a dependent, shall be made as of the last day of the taxpayer's taxable year.

"(c) Separate return of husband and wife: If a husband and wife living together file separate returns, each shall be treated as a single person.

"(d) Married persons not living with husband or wife: A married person not a head of a family and not living with husband or wife shall be treated as a single person.

"SEC. 402. Manner of election.

"The election referred to in section 400 shall be considered to have been made if the taxpayer files the return prescribed for this supplement, and such election shall be irrevocable. If the taxpayer for any taxable year has filed a return computing his tax without regard to this supplement, he may not thereafter elect for such year to compute his tax under this supplement.

"SEC. 403. Credits against tax not allowed.

"Section 31 (relating to foreign tax credit) and section 32 (relating to credit for taxes withheld at source) shall not apply with respect to the tax imposed by this supplement.

"SEC. 404. Certain taxpayers not eligible.

"This Supplement shall not apply to a nonresident alien individual or an estate or trust."

(b) Cross-references.—

(1) Section 11 of the Internal Revenue Code is amended by inserting at the end thereof the following: ("For alternative tax if gross income from certain sources is $3,000 or less, see section 400)".

(2) Section 12 of the Internal Revenue Code is amended by inserting at the end thereof the following:

"(g) For alternative tax if gross income from certain sources is $3,000 or less, see section 400."

(c) Amendment to section 4: Section 4 of the Internal Revenue Code is amended by inserting at the end thereof the following:

"(k) Shareholders of Personal Service Corporations—Supplement S.

"(l) Individuals with gross income from certain sources of $3,000 or less—Supplement T."

Mr. GEORGE. The language thus far read, Mr. President, applies to this short-form return.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment.

The amendment was agreed to.

The next amendment was, on page 11, after line 16 to insert:

SEC. 103. Corporation defense-tax rates incorporated in rate schedules.

(a) Tax on corporations in general: Section 13 (b) (1) and (2) of the Internal Revenue Code are amended to read as follows:

"(1) General rule: A tax of 24 percent of the normal-tax net income; or

"(2) Alternative tax (corporations with normal-tax net income slightly more than $25,000): A tax of $4,250, plus 37 percent of the amount of the normal-tax net income in excess of $25,000."

(b) Tax on special classes of corporations: Section 14 (b) of the Internal Revenue Code is amended to read as follows:

"(b) Corporations with normal-tax net incomes of not more than $25,000: If the normal-tax net income of the corporation is not more than $25,000, and if the corporation does not come within one of the classes specified in subsection (c), (d), or (e) of this section, the tax shall be as follows:

"Upon normal-tax net incomes not in excess of $5,000, 15 percent.

"$750 upon normal-tax net incomes of $5,000, and upon normal-tax net incomes in excess of $5,000 and not in excess of $20,000, 17 percent in addition of such excess.

"$3,300 upon normal-tax net incomes of $20,000, and upon normal-tax net incomes in excess of $20,000, 19 percent in addition of such excess."

(c) Foreign corporations: Section 14 (c) of the Internal Revenue Code (relating to tax on resident foreign corporations) is amended by striking out "22½ percent" and inserting "24 percent."

(d) Surtax on corporations improperly accumulating surplus: The rate schedule of section 102 of the Internal Revenue Code is amended to read as follows:

"27½ percent of the amount of the undistributed section 102 net inome not in excess of $100,000, plus

"38½ percent of the undistributed section 102 net income in excess of $100,000."

(e) Mutual investment companies: Section 362 (b) of the Internal Revenue Code (relating to tax on mutual investment companies) is amended by striking out "22½ percent" and inserting "24 percent."

Mr. McNARY. Mr. President, I suggest that the able Senator in charge of the bill explain the amendments as we go along. The report and the bill have only just been printed.

Mr. GEORGE. Mr. President, I shall be glad to do so. When any real question is raised by any Senator, he will have the opportunity to examine the amendment.

All this section does is to integrate the defense tax of 10 percent, which was imposed for a period of 5 years under the Revenue Act of 1940. The rate was simply merged or integrated with the normal rate on corporations. There is no change in the tax liability, except perhaps some infinitesimal changes which were made necessary in order to carry out the policy with even numbers rather than fractions. Subsection (a) of section 103 is simply an integration of two existing taxes.

It will be remembered that we favor the small corporations in our income-tax scheme by graduating the tax on corporate incomes up to $25,000 at lower rates. There is a step-up. On account of the so-called notch there is a slight readjustment above that amount. This amendment does not change existing law. It merely integrates or combines the 10-percent defense tax with the existing tax, except for fractional differences, which I have already undertaken to explain. I hope the amendment may be agreed to.

Mr. LANGER. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. LANGER. As a member of the Judiciary Committee I have been busy all morning in connection with the consideration of the nomination of Mr. Biddle to be Attorney General. When I came into the Chamber I found on my desk a book of 123 pages. I understand it has just been printed. This is the first

time I have seen a copy of the bill. Frankly, I cannot vote intelligently on any of these amendments because I do not know what I am voting on. I believe we ought to be allowed time enough to read the bill. I should like to be well enough informed so that when I go among the people and talk to farmers or businessmen I shall be able to explain what I voted on. Frankly, I am at a loss to know.

Mr. GEORGE. Mr. President, let me say to the Senator that I myself asked that the committee amendments be first considered, and that any committee amendments which were at all controversial be passed over. So if the Senator would like to have any amendment go over for study, amendment, or objection, I shall be pleased to have it go over.

Mr. LANGER. Mr. President, will the Senator yield for a question?

Mr. GEORGE. I yield.

Mr. LANGER. In the morning newspapers I noticed an item to the effect that the distinguished Senator from Georgia gave an interview in which he stated that the bill would be passed tomorrow, if not by tonight. I should like to know if that statement is correct.

Mr. GEORGE. No. I do not know that it has anything to do with the merits of the tax bill. It is not true. I have expressed the hope that the bill may be passed sometime before the end of the week.

Mr. LANGER. Then we shall have time enough to look it over.

Mr. GEORGE. Certainly. On that point, I should like to say that every day the bill is in the Congress the Treasury is losing—that is to say, is failing to collect—between two and a half and three million dollars. For that reason I rather earnestly hope that we may conclude the consideration of the bill sometime during the week. However, there is no purpose on the part of the chairman of the committee to rush through any amendment which is known to be controversial or concerning which any Senator raises a question.

Mr. LANGER. I do not intend to delay consideration of the bill. I merely wish to know what I am voting on.

Mr. GEORGE. I thank the Senator very much.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment on page 11, after line 16.

The amendment was agreed to.

COMMUNITY-PROPERTY TAX

Mr. McCARRAN. Mr. President, on page 32 of the bill is an item in which many of us are interested, section 119, pertaining to a new section to be entitled "Section 29." Many of us are compelled to be present this afternoon at a meeting of the Judiciary Committee.

Mr. GEORGE. Is the Senator referring to the community-property section?

Mr. McCARRAN. Yes. I wonder if it will be agreeable to the Senator to have that matter go over until sometime tomorrow?

Mr. GEORGE. It will not be pressed this afternoon. It will go over until tomorrow.

Mr. McCARRAN. I thank the Senator.

Mr. OVERTON. Mr. President, will the Senator yield so that I may make a request for unanimous consent?

Mr. GEORGE. I yield.

Mr. OVERTON. I ask unanimous consent to have printed at this point in the body of the RECORD a memorandum brief prepared by Hon. Charles E. Dunbar, Jr., a leading member of the Louisiana bar, in opposition to the community income amendment proposed by the Senate committee. This brief is an exceptionally able one. It does not deal with the constitutional questions involved, but with the practical application of the community income amendment to community-property-law States, and institutes a comparison between the income taxes that have to be paid in the community-property States and the taxes that would be paid in what are known as common-law States.

With this request I submit a statement from the Public Printer showing what will be the cost of printing the brief in the RECORD. It is estimated to make five and one-half pages of the CONGRESSIONAL RECORD, at a cost of $247.50.

The PRESIDING OFFICER. Without objection, the brief will be printed at this point in the RECORD.

The memorandum brief referred to is as follows:

MEMORANDUM BRIEF

(a) Explanation of substantial character of wife's ownership of half of the community partnership income and property in Louisiana.

(b) Summary of the practical and substantial differences between the community property or marital partnership law and the common law.

(c) Illustrations of the practical and serious burdens on husbands in relation to their property rights in community-property States, as distinguished from common-law States, which entitle such community-property States to the benefit of separate returns for income-tax purposes.

(d) Discrimination and unfairness to community-property States resulting from the attempt by the Government to ignore local State laws regulating and fixing ownership and property rights by the passage of the proposed Senate amendment.

FOREWORD

Following an earlier opinion applicable to Texas rendered in 1920, the Attorney General of the United States, on February 26, 1921, rendered an opinion which was promulgated by the Commissioner of Internal Revenue as Treasury Decision 3138 on March 3, 1921, based on exhaustive study of the laws of all the community-property States. In these opinions the Treasury Department announced that in Louisiana, Texas, Arizona, New Mexico, Idaho, Nevada, and Washington, all of which are community-property States, the wife, as a partner in community, was the vested and real owner of one-half of all of the community property and income of the community partnership, and that all community-partnership income, for the reason that it belonged equally to husband and wife, might be returned separately for income-tax purposes. (California was excepted from the ruling in 1921. Subsequent changes in the community-property law of California have resulted in the Government recognizing the same right of husbands and wives in California since 1930.)

In 1921, 1924, and 1934 attempts were made in Congress to amend the Revenue Act, which amendments were designed to compel the husband in community-partnership States to include in his individual income-tax return the half of the community income which belonged to his wife under the local State law. These amendments were substantially similar to the Finance Committee amendment, which is now pending in Congress. Arguments were made and briefs were filed in behalf of the community-partnership States in 1921, 1924, and 1934 showing that the proposed amendments were grossly discriminatory and unjust, and, as a result, the amendments were rejected by Congress (appendix 1). When the sponsors of the legislation in 1921 and again in 1924 failed to persuade Congress to ignore the laws of the community-partnership States and to compel by legislative fiat the husband to pay taxes on his wife's half of the community-partnership income, efforts were then made to change the rulings of the Treasury Department and of the Attorney General which had been in effect for many years. Following the decision of the Supreme Court in *U. S.* v. *Robbins* (269 U. S. 315), dealing with the law of California, the Treasury Department finally decided to institute test suits in some of the other community-partnership States, so that the Supreme Court of the United States might decide the matter. The Supreme Court of the United States in 1930 unanimously decided that the prior rulings of the Attorney General and Treasury Department were correct, and that accordingly in the States of Louisiana, Washington, Texas, New Mexico, and California the wife had a legal and real ownership in half of the community-partnership property and community-partnership income, and the right of husbands and wives in community-property States to make separate returns of the community income was again recognized (appendix 2). The Treasury Department accepted the decisions of the United States Supreme Court dealing with the local laws of Louisiana, Texas, Washington, Arizona, and California as applicable to the remaining community-property States of New Mexico, Idaho, and Nevada without the necessity of further test cases. Another attempt (the fourth) is now being made by legislative act to take away from husbands and wives in community-partnership States the rights, which, after a careful study of the local laws, have been recognized by three Attorneys General, the Treasury Department, and the Supreme Court of the United States (appendix 3). The pending Finance Committee amendment, which has been introduced for this purpose, reads as follows:

"For the purpose of determining the income-tax taxability of any individual for any taxable year beginning after December 31, 1940:

"(a) Income earned by each spouse (whether or not treated as community property under the State law) shall be deemed the income of the earner thereof.

"(b) Income derived from property of the marital community (except such property as constitutes either income derived from the separate property of either spouse or property acquired therewith) shall be considered as the income of the spouse who has the management and control thereof under the law of the jurisdiction in which the marital community exists.

"(c) In case the spouses elect to file separate returns, the spouse required under this section to treat such income as his individual income shall alone be entitled to the deductions and credits allowed under the internal-revenue laws which are properly allocable to such income."

The purpose of the above-quoted amendment, which is now pending, is to ignore and nullify the effect of the local community partnership laws of Louisiana, Washington, Texas, California, New Mexico, Arizona, Idaho, and Nevada and force the husband in these States to include in his individual tax return property and income, which, under the law of his State, does not belong to him but which belongs to his wife. The present proposed

legislation is not only grossly discriminatory and unfair to the community property States but it violates the Constitution of the United States.

The sixteenth amendment to the Constitution permits Congress to tax a person's income. The Federal Government under this amendment has adopted on the whole a policy of taxing the real or equitable owner of income as determined by local State law. If ownership as created by the local statutes of the various States is not recognized by Congress and is to be disregarded by Congress endless complications, hardships, and gross injustice and discrimination will result and uniformity in matters of Federal taxation will be destroyed.

To the average layman and lawyer unfamiliar with the community-property or marital-partnership law there is a general impression that the only difference between the laws of community-property States and common-law States is a difference of theory, and that the community-property law is only a fiction which gives community-property States benefits in relation to income-tax returns at the expense of common-law States that have a different system of law.

It is respectfully submitted that such an impression is erroneous and contrary to the law and facts as announced by three Attorneys General, the Treasury Department, and the Supreme Court of the United States (appendix 4).

The purpose of this memorandum is to explain simply and briefly, with as little use of technical language and the citation of authorities as possible, the general principles of the community law and by practical illustrations to demonstrate that the community-partnership law is not only theoretically different from the common law but as a practical and substantial fact creates a marital partnership in which the wife is the real and substantial owner of one-half of the community property and income with resulting burdens and practical limitations on the property rights of husbands, unknown to the common law, which entitle such husbands in community-property States to the corresponding rights that they now have in the way of separate income-tax returns.

Brief explanation of the effect of the community-partnership law

The most important effect of the law of Louisiana and other community-property States is to create a partnership between the husband and wife, and, as a result, one-half of the income and property acquired during marriage by this partnership immediately vests in the wife and the other half in the husband. The community system of law as it exists in Louisiana and other States is more analogous as a matter of legal principle and substantial fact to a partnership than any other common-law legal status. The right of the husband to administer and manage the community-partnership property that is acquired after marriage as a result of the joint or individual efforts of the two spouses is in substance analogous to that of a managing partner at common law or a trustee at common law with very broad power of administration (appendix 5). Under the community or partnership theory, the husband and wife, with certain exceptions, become absolute and equal owners of all property and income acquired by them during the marriage share and share alike (appendix 6). The courts of the various States have repeatedly held that there is no distinction to be made between husband and wife as to the degree, quantity, nature, or extent of the interest each has in the community property (appendix 7). The husband, as managing partner or trustee, or as he is called in some of the community States, the master of the community, is given the administration of the community property by law, and this right to administer is terminated by divorce, or by his death or the death of his wife. This right of administration may also be terminated without the necessity of a divorce, by a separation of the community property and a liquidation of the partnership, which may be claimed and obtained by the wife on the ground that the husband is a gambler, or if he is guilty of mismanagement or otherwise incompetent or incapable of properly administering the community-partnership property.

The pending amendment proposes, although the husband is admittedly not the owner, to tax him on his wife's half of the community-partnership property, because he is the manager and administrator of the community partnership under the local State law. It is probably unnecessary to state that in common-law States, a managing partner of a partnership is not required by the Federal revenue act to include in his individual income-tax return the share of the partnership income belonging to his other partner or partners. The proposed bill, however, would require the husband, who is analogous to a managing partner at common law, to include in his individual income-tax return not only his share of the community-partnership income but the share which belongs to his wife as a partner in the community partnership. In short, it is proposed that for taxation purposes the community partnership in eight States is to be treated differently from ordinary partnerships in every State of the Union.

Practical illustrations of the wife's one-half ownership of the community-partnership property and income and the substantial restrictions and limitations placed on the husband's administration of the community-partnership property

(a) The husband in Louisiana, in addition to being restricted by law as to gifts of community-partnership property (appendix 8), is expressly denied, by statute, the right to dispose of or deal with the community-partnership property or income in fraud of his wife's property rights in half of the community-partnership property and community income. The liberal equitable power of our courts in relation to fraud are an ever-present potential protection to the wife against an unfaithful or dishonest husband, who deals with the community-partnership property in violation of his trust or fiduciary obligation as master and managing partner of the community (appendix 9). The husband is merely the managing partner of the marital partnership, with full discretion and power of administration, but, as an agent and fiduciary, he must act in good faith in the handling of the wife's interest in the community partnership. If the husband wastes the community-partnership property in dissipation and debauchery for his own pleasure, it has been held in several community-property States which have no express statute on the subject similar to the Louisiana statute that such conduct on his part is a disposition of the community property in fraud of his wife's rights. The husband, in common-law States, since he is the owner of all property acquired by him during marriage, can give it away to anyone he pleases and whenever he sees fit. Moreover, he can use it for gambling, waste it in dissipation, or dispose of it in any other way he chooses, and it is no fraud against the wife, and the wife has no right to complain, because in common-law States the husband is the exclusive owner of all of the property, and the wife has no interest in it (appendix 10).

(b) Unlike the common law, and because of the community-partnership law, if the husband in Louisiana, even in the absence of fraud on his part, is wasteful, reckless, incapable, or incompetent, or if he is a careless administrator and is mismanaging the community-partnership property, or if his affairs are in such disorder as to jeopardize the wife's property rights, or, a fortiori, if he is fraudulently disposing of community property, the wife can immediately demand and obtain a separation of property, which carries with it the dissolution and liquidation of the community partnership. The wife, under such circumstances, receives immediate possession and control of her half of the community property existing at the date of the separation of property, and takes over the immediate control and administration of her half of the community property and removes the husband thereafter as managing partner of the community property. Each spouse thereafter manages his or her property, and all property thereafter acquired belongs, as separate property, to the spouse acquiring it. When the wife sues for separation of property, she may, as a matter of protection, immediately obtain an injunction restraining the husband from further activity as manager of the community property (appendix 11). This right of the wife in Louisiana is similar to the right of a partner in an ordinary commercial partnership to provoke a liquidation or dissolution of the partnership in case of mismanagement or fraud. Furthermore, this right of the wife in Louisiana has nothing to do with and is distinct from her right to a divorce, and can be asserted by her while she and her husband are living together as man and wife. This right of the wife to force a dissolution and liquidation of the community, in case the husband is incompetent or guilty of mismanagement, or fraud, or if his affairs are in disorder, is a serious limitation and check on the husband's authority as manager of the marital partnership, and is a substantial safeguard established for the benefit and protection of her property right. This very practical remedy given by the Louisiana law to the wife is consistent only with the theory that the husband is only an administrator or managing partner, and that the wife has a real and substantial ownership in half of the community property administered by the husband, which the Louisiana courts will protect. In common-law States the wife, of course, has no such right, because there is no community partnership between husbands and wives created and established by State law. The husband, in common-law States, is the owner of all property acquired by him during marriage, and it is immaterial whether he is incompetent or incapable, and he can spend it in dissipation or debauchery, gamble with it, or mismanage it, as he chooses, and the wife, because she has no ownership or interest in her husband's property, has no legal right to complain (appendix 11).

(c) That the husband is only the managing partner of the community partnership and cannot enjoy or use the property for himself is further demonstrated by his inability to use community-partnership income or property without accountability to his wife. Thus, if he uses any part of the community-partnership income for the benefit of his separate estate, he becomes a debtor to the community partnership to the extent to which his separate estate has been enhanced in value. If he pays his separate debts out of the community funds, his separate funds must reimburse the community for the amount so paid. In common-law States, where there is no community partnership between husbands and wives, all property and income acquired by the husband during marriage belongs exclusively to him, and all property and income acquired by the wife during marriage belongs to her, and the husband can use and spend his property and income to pay his personal and separate debts, or in any other way he pleases, and his wife has no legal right to complain because she has no interest or ownership in the property and income acquired by her husband during marriage (appendix 12).

(d) The wife, in the event that she does go into business for herself, is still a partner in the community estate; and if she acts

unwisely and contracts debts, these debts operate against the entire community estate and against the husband individually, since he is the head and master of the community. This situation is true even though the husband has nothing whatever to do with the business which the wife has undertaken and even though he objects to the debts being contracted. (See appendix 13.)

(e) The husband in Louisiana can, by his will, dispose only of his half of the community property, and is powerless to affect the wife's half. The converse of the husband's lack of testamentary power over the wife's half of the community income is illustrated by the completeness of the wife's power of disposition of her half. The wife can will her half of the community property to anyone she chooses, even to a lover, and when she dies, the husband must, by agreement or judicial partition, sell the community property and liquidate any and all business ventures in order to deliver the value of half of the marital partnership property to the legatee or legatees of the wife. It is only because one-half of the community-partnership property belongs to the wife that the law gives her the right of testamentary disposition of half of the community-partnership property and income. At common law, because the husband owns all property and income acquired by him after marriage, he has the free and unrestricted power of testamentary disposition of the whole of this property, and his wife cannot dispose of any of his property by will. Likewise, since the wife is the exclusive owner of all property acquired by her during marriage, she can dispose of all of it by will, and the husband cannot dispose of any part thereof. This is because there is no community partnership in common-law States and the wife has not a half interest in any part of the husband's property acquired during marriage, and the husband has not a half interest in any part of the wife's property acquired during marriage (appendix 14).

(f) If the wife in Louisiana dies without having made a will, her half of the community-partnership property and income descends to her heirs and her husband is powerless to prevent it. It has been held in Louisiana, that even the illegitimate children of the wife, born before her marriage and not the children of her husband, were entitled, on her death, to inherit her share of the community estate, to the exclusion of the surviving husband (appendix 15). If the wife in Louisiana dies, her heirs or legatees pay both State and Federal inheritance taxes on her half of the community-partnership property and income, and if the husband happens to be the legatee or heir of his wife, he is required to pay both a State and Federal inheritance tax. Thus, under the law of Louisiana, if a man has the misfortune to lose his wife, he must pay to the United States and the State of Louisiana a heavy inheritance tax for the privilege of inheriting from her one-half of the property which in a common-law State would be considered entirely his. In this connection, it should be noted that the Treasury Department recognizes the community partnership and the wife's half ownership in the community property and income for the purpose of levying an inheritance tax on the husband or the heirs of the wife, on the theory that they receive the wife's property and income, and yet, if the present amendment is adopted, the Government will compel the husband to pay an income tax on the same property and income, evidently on the theory that it should be treated as his property. We submit that this is in effect "blowing hot and cold" at the same time (appendix 16).

The rules we have stated are unknown to the common law. At common law all of the property acquired by the husband during marriage belongs to him alone, and, accordingly, upon his death, descends to his heirs, and his heirs must pay both State and Federal inheritance taxes; and, conversely, all the property acquired by the wife during marriage belongs to her alone, and, upon her death, descends to her heirs, and her heirs must pay both State and Federal inheritance taxes.

(g) The community partnership in Louisiana is dissolved, and the husband is automatically removed as managing partner in case a divorce is obtained by either husband or wife, and as a result, the community-partnership property is immediately liquidated and the community property and accrued income divided equally between the husband and wife. This is true irrespective of the merits of the marital disagreement and even though the wife alone is guilty and wholly to blame for the situation bringing about the divorce and the resulting dissolution and liquidation of the community partnership (appendix 17). The right of the wife in this connection is independent of any question of alimony, which is governed and regulated by separate statutes. The wife's right, in the event of divorce, to remove the husband as manager of the community partnership and immediately receive one-half of the community-partnership property and income results from the fact that in Louisiana she is the owner of one-half of the community-partnership property and income. As a consequence, therefore, if a wife in Louisiana is guilty of adultery and runs away with her lover, she can leave instructions with her attorney in connection with the divorce proceedings, to require an immediate dissolution and liquidation of the community partnership, and she can force the husband to account for and deliver to her immediately one-half of the community-partnership property and income, which she can then spend, if she pleases, in luxury with her lover. In a common-law State, a wife leaving her husband under such guilty circumstances could be divorced by her husband and would not even be entitled to alimony, much less to an equal division of property. The simple reason for this result, as we have said before, is because in common-law States the husband is the exclusive owner of all of the property acquired by him during marriage, and the wife has not the slightest interest or ownership in his property.

SUMMARY

In the light of the many illustrations of the practical and substantial nature of the wife's ownership and the restrictions on the husband as agent or managing partner of the community partnership we have briefly outlined, we submit that the proposed amendment is grossly unjust and discriminatory. The pending community-property amendment, in substance, proposes to tax the husband on income which belongs to his wife, by treating the income as if it were his, when, as a matter of fact, he cannot give it away if he chooses; when he cannot dispose of it in fraud of his wife's property rights, if he pleases; when, if he is reckless, careless, or a bad manager, he loses the administration of it; when, if he is of a speculative disposition, or the disorder of his affairs is such as to jeopardize his wife's property rights, he loses the administration of it; when he loses the administration of it in case of a divorce and even without any fault on his part, if his wife is unfaithful to her marital obligation; when he cannot spend it to improve his separate property, if he wants to; when he cannot use it to pay his separate debts, if he pleases; when he has no right or power to have it descend to his heirs; when, if his wife dies, he loses the administration of it and must deliver it to his wife's heirs; and when, if it is willed to him by his wife, he takes it not as owner but by inheritance, and is compelled to pay both a State inheritance tax and a Federal estate tax for the privilege of receiving it.

None of these restrictions and limitations on the power of the husband with regard to property and income acquired during marriage exists in common-law States, where the husband is the owner of all of the property and income acquired during marriage; and, conversely, the restrictions and limitations we have outlined exist in Louisiana, because the wife is the owner of one-half of the property and income acquired during marriage by the marital partnership composed of both husband and wife.

We have emphasized the fundamental and practical features of the Louisiana community-partnership law, in order to show clearly that the community partnership between husband and wife in Louisiana and other community-property States is not a fiction, but is, in substance, a partnership imposed by law, which creates burdens and limitations as well as privileges in relation to the property rights of husbands and wives. These burdens and limitations on property rights are unknown in the common-law States, and, we submit, if it were true that any benefits flowed from the community-partnership law, they are more than counterbalanced by the multitude of burdens and restrictions placed upon the property rights of husbands and wives in Louisiana, which do not exist in any common-law State. The proposed amendment is unjust and discriminatory in its practical effect, and violates sound principles of uniformity in Federal taxation.

Practical instances of discrimination and unfairness, which will result from the passage of the proposed bill

An attempt to force the husband and wife in Louisiana, who, under our local law, are in substance partners, to report all of the community-partnership income in the name of the husband alone, when, as a matter of law and fact the husband owns only one-half of the community income, and is merely the managing partner of his wife's other half, will not produce uniformity, but, on the contrary, will unfairly discriminate against Louisiana and other community-property States, and will ignore the fundamental law of our State, by treating what in Louisiana is in substance a partnership created by law, differently from voluntary partnerships in every common-law State.

Furthermore, in addition to the discrimination resulting from voluntary partnerships, it is important to note that as a matter of fact there are a number of common-law States that permit husbands and wives to form partnerships voluntarily, and in these States, husbands and wives may make voluntary partnership agreements which may accomplish the same result, by contract, that the law accomplishes in Louisiana. Where such a partnership agreement has been entered into between husband and wife in these common-law States, the Commissioner of Internal Revenue has recognized that each spouse may return his or her distributive share of the partnership income, and is liable only for the tax upon such share. Numerous cases, both in the Federal court and before the Board of Tax Appeals, recognize that under the common-law system separate returns by husband and wife, effecting a division of income, may easily be arranged by any one of a number of legal transactions which have been sanctioned by the law. For example, an informal joint venture or partnership for the purpose of trading on the stock exchange has been recognized as legally authorizing husband and wife to return one-half of the profits each (appendix 19). Likewise, an oral agreement that a partnership should exist in a lumber business between husband and wife, although the wife takes no active part in the business, will authorize separate returns, and, in the same case, a donation of a farm by the husband, which the husband subsequently rented from

the wife, was authorized and the wife was permitted to return the profits from the farm (appendix 20). A simple declaration by the husband that he is purchasing certain property and that the ownership is to be divided equally between him and his wife authorizes the wife to return one-half of the profit resulting from a subsequent sale on her separate income tax (appendix 21). There are numerous other cases illustrating the same principle and rulings (appendix 22). As shown by the rulings set out in the Income Tax Service of the Commerce Clearing House, section 1169, the Government has recognized and permitted separate returns as a result of a partnership entered into between husband and wife in 22 common-law States and in the District of Columbia.

It is to be noted that none of the transactions above referred to, which have been held legal in common-law States, is permissible under the Louisiana law. The husband and wife in Louisiana cannot make contracts with each other or enter into partnership agreements (appendix 23). It is thus apparent that while the common-law States, by a variety of legal transactions between husband and wife which have already been approved by the Government, permit the making of separate returns by husbands and wives and the shifting of property in various ways to authorize a rearrangement of income between husband and wife, none of these accepted legal methods in common-law States is possible under Louisiana law.

Moreover, the voluntary partnership arrangements between husbands and wives in the common-law States, permitting and authorizing husbands and wives to make separate income-tax returns referred to above, will not be affected or changed by the proposed amendment, because the amendment only applies to so-called community-property States, and is, therefore, intended to and actually does affect only eight community States. The adoption of the proposed amendment, therefore, would result in permitting husbands and wives who are voluntary partners in other States to divide income, and would, in eight States of the Union, where a partnership between husband and wife is created by law and called a community partnership, prevent the division of income between the partners and the making of separate returns by the partners.

On the other hand, if the husband in community-property States is analogized to a trustee at common law insofar as he manages one-half of the community-partnership property and income for his wife, surely it cannot be contended that one in the position of a trustee for another person can or should be forced to add the income derived from property administered for the benefit of the beneficiary to his individual property and income for Federal income-tax purposes. Yet, this is in substance what the pending community-property amendment proposes to do, by forcing a Louisiana community husband to add the community-partnership income to his personal income for taxation purposes.

It is respectfully submitted that if the inhabitants of common-law States should be of the opinion that it is to their interest to place the burdens and limitations on the husband's earnings and accumulations during marriage and confer upon the wife a substantial property right in the earnings and accumulations of the husband during marriage, which the law of Louisiana confers upon her, there is nothing to prevent them from changing their laws accordingly, and from accepting this advanced view of women's rights, by adopting the community-partnership system. By establishing a community-partnership system, which has prevailed in eight States long before the income-tax amendment was adopted, common-law States may obtain any advantages, if such there are, that flow from the law and facts in community-partnership States. It is evident that the community-partnership system is so substantial in its nature with reference to property rights that common-law States, up to this time, have considered it objectionable in this regard and not desirable to adopt on any theory of Federal income-tax benefit.

With reference to the argument as to the necessity for bringing about harmony in the Federal taxation law, this is impossible on account of the fact that the Federal tax must be based on the person's income, and what is property and income of an individual, corporation, or partnership is necessarily a matter depending on the constitutions and laws of the various States of the Union. We have already pointed out that in many common-law States, husbands and wives may make voluntary partnership agreements and obtain the same benefits which result from a community-property partnership established by law. More than this, in all common-law States a husband may make a gift of half of his property to his wife and thereafter the income from the property thus donated may be returned as the separate property of the wife (appendix 24). This is done as a matter of practice, and has never been questioned. The laws of Louisiana and other community States make the wife the owner of one-half of the income and property acquired during marriage and yet the Federal Government, by the proposed amendment, is attempting to ignore this fundamental law of the State for taxation purposes. The result will be, in case the proposed amendment is adopted, that simply because the property becomes joint property as a result of the positive law of Louisiana and other community-property States, a different rule will be applied in community States than is applied in other States where the same situation is brought about voluntarily.

In Louisiana, a gift by a husband to his wife during marriage is as a matter of law revocable during the marriage, and in view of the provisions of the Revenue Act taxing income from revocable trusts to the grantor, the Treasury Department may contend that the income from property donated by a husband to his wife should remain taxable to the husband. In common-law States no such contention can be made, and the income from donated property is clearly taxable to the wife only. Thus the Louisiana law may prevent the husband from making an effective division with his wife by donation to her. This is not important so long as the present Treasury regulations stand, recognizing the right of the husband and wife in Louisiana each to return his or her half of the community-partnership income, but it affords another reason why, so long as spouses in noncommunity States can make an effective division of property by donation from one spouse to another with a resulting division of income for income-tax purposes which spouses in Louisiana may not be able to accomplish, Congress should not undertake by passage of the pending amendment to ignore the division which the fundamental law of Louisiana automatically accomplishes between the spouses (appendix 25).

It is important to note, in connection with an explanation and statement of the practical effect of the wife's half interest in community-partnership property in Louisiana and other community-property States, that a common-law State will recognize the ownership and legal title of the wife in one-half of the community-partnership property acquired while the spouses are domiciled in Louisiana, when the spouses leave Louisiana and community-partnership property is removed by the spouses from Louisiana to other States. It is a generally recognized proposition of conflict of laws that the title and status of property is to be determined by the law of the jurisdiction under which the property was acquired, and in case of the removal of the property to another State, the State to which the property is removed will approve and recognize the law of the jurisdiction from which the property was removed, in order to determine the ownership of the property. Thus, if a husband and wife domiciled in Louisiana accumulate $1,000,000, this is community property, and under the amendment disregarding the Louisiana law for Federal tax purposes, the husband is compelled to report as his income the wife's one-half of the income of this property. If the husband and wife, however, sell their Louisiana property and move to New York or some other common-law State and invest the proceeds of the property in the latter State, the common-law States, under the law and decisions of the courts, recognize the vested interest of the wife created by the law of Louisiana where the property was acquired, and the $1,000,000 invested in New York is therefore recognized by the courts of New York as belonging one-half to the husband and one-half to the wife. This is true, even though the property technically may stand in the name of the husband in the common-law State, for under such circumstances the husband is considered trustee for $500,000 of the property for the benefit of the wife. In New York, therefore, or in any common-law State, when the property taken from the community State is reinvested, one-half immediately becomes the property of the husband and the other half the separate property of the wife, and the husband and wife may make separate returns for Federal income-tax purposes (appendix 26).

It is clear, in the light of these facts, that if the proposed amendment is passed, the result of the situation will be that a husband and wife who sell their community property in Louisiana and reinvest it in common-law States where the same property will be considered separate property, will be able to make separate returns in common-law States, whereas, if they had remained in Louisiana, they could not make separate returns. The proposed amendment, in attempting to emasculate the law of Louisiana and other community-property States, and applying, as it does, only to community-property States, would result in discrimination against community-property States, and would not be legally applicable when the husband and wife removed their property to another State.

We have the amusing and illogical situation of Congress attempting to fix property rights in eight States for taxation purposes in the very teeth of the law of the eight States involved, when, if the same property is removed to the other States of the Union, these latter States recognize the law of Louisiana and the property rights of the spouses, and Congress, following the law of the common-law States, taxes the former community husband and wife on the very basis that they should have been taxed on if the pending community-property amendment had not been adopted. In short, Congress would recognize for income-tax purposes the law of common-law States which recognize the law of Louisiana, but when dealing directly with Louisiana citizens the Louisiana property law would be disregarded.

This is only another illustration of the inequity and unfairness resulting from any attempt on the part of the Government to disregard the local State laws with reference to the ownership of income and property. Unless the Government is prepared to go to the full extent of requiring husbands and wives in every State, common law as well as community, to combine all their income in one return, there can be no justification for requiring such a result in community States alone.

We might give numerous illustrations, showing that by contract the ownership of property may be and is frequently changed in the various common-law States, resulting

in a different application of the Federal income-tax law. This condition of affairs is inherent and fundamental under our State and Federal Constitutions, and ownership and property rights, as fixed by the various State laws must, in the nature of things, be followed by the Federal Government in applying its laws. It is submitted that the principles we have outlined are elementary under our constitutional system. In Louisiana, the community-partnership law is imposed by statute, and does not result from contract, and, of course, was not adopted to bring about any income-tax benefits, because the community-partnership law was in existence many years before the adoption of the first income-tax law. In fact, the community-partnership law has been a part of the civil law of Louisiana ever since colonial days. Louisiana inherited the community-partnership law from France, which in turn borrowed it from Spain, where it had prevailed since the seventh century (appendix 2, 3, 5, 6, and 7).

Uniformity among all States could fairly be obtained by Federal legislation only by requiring income of husband and wife in every State to be combined in Federal income-tax returns

It is apparent, since the law of each State must determine questions of ownership, that it is not possible to obtain identical practical results from the operation of the Federal revenue laws in each of the 48 States of the Union, unless Congress wishes to do violence to the dual character of our Government and the historic and settled principle that the Federal Government will recognize property and the ownership of property as defined and created by local State laws in the various States. It has been suggested that uniformity is desirable. It is obvious that uniformity cannot be obtained by having Congress, in the form of a discriminatory legislative act, disregard the fundamental laws of 8 States of the Union and at the same time recognize the local law of all of the other States of the Union as a guide and basis for the application of the Federal income-tax law. If the Government desires to tax the separate income of both husband and wife as a whole and as a unit in one return, it is not fair to attempt to bring about this result by legislative fiat in only 8 States of the Union. If identical uniformity is desired, Congress should tax husbands and wives as a unit in all the States of the Union and compel a single return in which must be included the income of both husband and wife in all States. Insofar as husbands and wives are concerned, such a law would be perfectly uniform in its application in every State of the Union. In fact, we understand that this is the method of solving the problem suggested and recommended by Secretary Morgenthau, of the Treasury Department. (See statement of Secretary Morgenthau issued December 15, 1933, Appendix 28.) In referring to this method of solving the problem of uniformity, we do not intend to suggest that husbands and wives of common-law States would approve such an inequitable, discriminatory, and unconstitutional law. In fact, the adoption of such a law would ignore the separate individuality and property rights of men and women, penalize marriage, and discriminate against married people in favor of single persons.

The foregoing brief summary of the community-partnership law and its practical operation make clear how futile and impossible it is for Congress to ignore property rights in an attempt to produce uniformity, and that instead of securing uniformity the proposed bill, even if it could be adopted under the Constitution, will produce endless confusion and inequities. Moreover, we feel that we have demonstrated that the proposed Finance Committee amendment is discriminatory and if passed will result in gross unfairness to the taxpayers of 8 States of the Union.

Respectfully submitted.

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APPENDIX

The following decisions, statutes, and authorities are submitted in support of the Statements of Law contained in the foregoing brief:

(1) Vol. 61, CONGRESSIONAL RECORD, No. 146, for November 3, 1921; pp. 8037, 8038; report of hearings before Committee on Ways and Means, House Reports, Revenue Division, 1924, pp. 194, 348, 375 to 482, inclusive; Hearings, Ways and Means Committee (H. R. 8396), May and June 1934.

(2) *Poe* v. *Seaborn*, (Wash.) 75 Law Ed. 239–247, 282 U. S. 101–118; *Fred O. Goodell* v. *I. B. Koch*, (Ariz.), 75 Law Ed. 247, 282 U. S. 118–122; *Jacob O. Bender* v. *Wm. Pfaff*, (La.), 75 Law Ed. 252, 282 U. S. 127–132; *Geo. C. Hopkins* v. *G. W. Bacon*, (Texas), 75 Law Ed. 249, 282 U. S. 122–127; *United States* v. *Malcolm*, (Calif.), 75 Law Ed. 714, 282 U. S. 792; see also *Warburton* v. *White*, 176 U. S. 484; *Arnett* v. *Reade*, 220 U. S. 311.

(3) Opinions of Acting Attorney General Mitchel in 1927, and Opinions of Attorney General Daugherty in 1924; Attorney General Stone in 1924, and Attorney General Sargeant in 1926; see 32 Op. Att. Gen. 298, 435; 34 Ibid. 376, 395; 35 Ibid. 89, 265. General Counsel Memorandum, 6351; 32 Op. Att. Gen. 435. T. D. 2090, 2137, Of. Dec. No. 426, reported at 2 C. B. 193. T. D. 3071, reported at 3 C. B. 221; and T. D. 3138. See also Appendix (1), *supra*.

(4) See Appendix (1), (2), and (3), *supra*.

(5) Louisiana Revised Civil Code, arts. 2401, 2399, 2402, 2334. *Childers* v. *Johnson*, 6 La. Ann. 634, at p. 641.

(6) Louisiana Revised Civil Code, arts. 2334, 2399, 2402, 2404, 2386, 2385, and 2406.

(7) See State decisions cited and quoted in Supreme Court decisions referred to in appendix (2), supra, and decisions quoted in opinion of Attorney General Palmer, of February 26, 1921, 32 Op. Att. Gen. 435, which was published and promulgated by the Treasury Department on March 3, 1921, in connection with T. D. 3138. See also authorities and statutes quoted in brief for respondent in the Supreme Court of the United States, in the case of *Jacob O. Bender* v. *William Pfaff*, Docket No. 86, October term, 1930, filed in behalf of respondent and Louisiana taxpayers by Charles E. Dunbar, Jr., and Monte M. Lemann, attorneys, of New Orleans, La.

(8) Louisiana Revised Civil Code, art. 2404; *Melady* v. *Succ. of Bonnegent*, 142 La. 534; *Bister* v. *Menge*, 21 La. Ann. 216; *Radovich* v. *Jenkins*, 123 La. 355; *Snowden* v. *Cruse*, 152 La. 144; *Ramsey* v. *Beck*, 151 La. 190; *Succ. of Moore*, 42 La. Ann. 331, at p. 341. See authorities contained in brief of respondent in Supreme Court of the United States in the matter of *Jacob O. Bender* v. *William Pfaff*, Docket No. 86, pp. 23–26, inclusive.

(9) Louisiana Revised Civil Code, art. 2404; *Smallwood* v. *Pratt*, 3 Rob. 132; *Dixon* v. *Dixon's Executors*, 4 La. 188; *Phillips* v. *Phillips*, 160 La. 813. See authorities contained in brief filed in Supreme Court of the United States in behalf of respondent in the matter of *Jacob O. Bender* v. *William Pfaff*, docket No. 86, October term, 1930, pp. 26–28, inclusive.

(10) See authorities referred to in Appendix (9), *supra*.

(11) Louisiana Revised Civil Code, arts. 140 to 161, inclusive, and arts. 2425 to 2437, inclusive, and art. 155. *Davock* v. *Darcy*, 6 Rob. 342; *Jones* v. *Morgan*, 6 La. Ann. 630; *Wolfe & Clark* v. *Lowry*, 10 La. Ann. 272; *Mock* v. *Kennedy*, 11 La. Ann. 525; *Webb* v. *Bell*, 24 La. Ann. 75; *Vickers* v. *Block*, 31 La. Ann. 672; *Chaffe* v. *Watts*, 37 La. Ann. 324; *Brown* v. *Smyth*, 40 La. Ann. 325; *Walmsley* v. *Theus*, 170 La. 417; *Gasteur* v. *Gasteur*, 131 La. 1, Cf. opinion of district court in this case, R. 21; *Carite* v. *Trotot*, 105 U. S. 751; *Jones* v. *Jones*, 119 La. 677; *Larose* v. *Maquin*, 150 La. 353 at 358, La. Code of Practice, art. 298; *Hill* v. *Hill*, 115 La. 489; *White* v. *White*, 159 La. 1065; see authorities referred to, pp. 28 to 30, inclusive, in brief for respondent, filed in the Supreme Court of the United States in the case of *Jacob O. Bender* v. *William Pfaff*, docket No. 86, October term, 1930.

(12) Louisiana Revised Civil Code, arts. 2403, 2408; *Glenn* v. *Elan*, 3 La. Ann. 611; *Dillon* v. *Treville*, 129 La. 1005; *Succ. of Casey*, 130 La. 743; *Succ. of Goll*, 156 La. Ann. 910. Compare *Childers* v. *Johnson*, 6 La. Ann. 634. See authorities referred to, pp. 35 to 38, inclusive, in brief for respondent, filed in the Supreme Court of the United States in the case of *Jacob O. Bender* v. *William Pfaff*, docket No. 86, October term, 1930;

(13) See *Lob's Sons* v. *Karnofsky*, 177 La. 229, 148 So. 34.

(14) See Louisiana Revised Civil Code, arts. 915 and 916; *Theall* v. *Theall*, 7 La. 226; *Ramsey* v. *Beck*, 151 La. 190; *Succ. of Hayes*, 33 La. Ann. 1143; *Succ. of Moore*, 40 La. Ann. 531.

(15) Louisiana Revised Civil Code, art. 915; *Bossier* v. *Herwig*, 112 La. 539; *Brooks* v. *House*, 168 La. 542. See authorities referred to in Appendix (14), *supra*.

(16) *Burton* v. *Brugier*, 30 La. Ann. 478; *Webre* v. *Lorio*, 42 La. Ann. 178; *Succ. of Marsal*, 118 La. 212; *Coreil's Estate*, 137 La. 702; *Liebman* v. *Fontenot*, 275 Fed. 688; *Succ. of May*, 120 La. 692; see Appendix (14) and (15), *supra*. See authorities referred to, pp. 38 to 43, inclusive, in brief for respondent, filed in the Supreme Court of the United States in the case of *Jacob O. Bender* v. *William Pfaff*, Docket No. 86, October term, 1930.

(17) Louisiana Revised Civil Code, arts. 123, 136, 138, 149, 150, 155, 159, and 2406. Louisiana Code of Practice, art. 298. *Dillon* v. *Dillon*, 35 La. Ann. 92; *Succ. of Lebesque*, 137 La. 567; *Crochet* v. *Dugas*, 126 La. 285; *Williams* v. *Goss*, 43 La. Ann. 868; *McClelland* v. *Gasquet*, 122 La. 241; *Hill* v. *Hill*, 115 La. 490; *White* v. *White*, 153 La. 313, 159 La. 1065; *Lockhart* v. *Dicey*, 161 La. 282; *Nichols* v. *Her Husband*, 7 La. Ann. 263; *Ford* v. *Kittredge*, 26 La. Ann. 190; Act 21 of 1928, amending art. 160 of the Revised Civil Code. See authorities referred to, pp. 31 to 35, inclusive, in brief for respondent, filed in the Supreme Court of the United States in the case of *Jacob O. Bender* v. *William Pfaff*, Docket No. 86, October term, 1930.

(18) See *Houghton* v. *Hall*, 177 La. 237, 148 So. 37; *Succ. of Howell*, 177 La. 276, 148 So. 48.

(19) *Tracy* v. *Commissioner* (C. C. A. 6th Cir.), 70 F. (2d) 93.

(20) *Virden* v. *Commissioner*, 6 B. T. A. 1123.

(21) *Wright* v. *Commissioner*, 26 B. T. A. 2[illegible].

(22) See, for example, *Dunham* v. *Commissioner*, 27 B. T. A. 1068; *Gillette* v. *Commissioner*, 18 B. T. A. 434; *In re Bellingrath*, 3 B. T. A. 11; *First National Bank* v. *Commissioner*, 13 B. T. A. 1096.

(23) Louisiana Revised Civil Code, articles 2446, 2329, and 1790.

(24) See, for example, *Appeal of Robinson's Estate*, 4 B. T. A. 47; *Garden* v. *Commissioner*, 16 B. T. A. 592; *Henningsen* v. *Commissioner*, 30 B. T. A. 301; *Johnson* v. *Commissioner*, 5 B. T. A. 253; *Bailey* v. *Commissioner*, 3 B. T. A. 362; *Appeal of Hoffman*, 3 B. T. A. 964; see also, *Bingham* v. *White*, 31 Fed. (2) 574.

(25) Louisiana Revised Civil Code, art. 1749.

(26) *Depas* v. *Mayo*, 11 Mo. 314; *T. C. Phillips, Petitioner*, v. *Commissioner*, 9 B. T. A. 153 (1927); *Succ. of Popp*, 146 La. 464. The Treasury Department has also recognized this rule in the application of the income-tax law in Solicitor's Opinion 121, reported in Internal Revenue Cumulative Bulletin for December 1921, at page 197.

(27) *Houghton* v. *Hall*, 177 La. 237, 148 So. 37 (1933); *Hellberg* v. *Hyland*, 168 La. 493 (1929); Louisiana Revised Civil Code, articles 2402, 2334, as amended by Act No. 170 of 1912 and Act No. 186 of 1920. See authorities referred to in Appendix (5) and (6), *supra*.

(28) Revenue Revision 1934, hearings before the Ways and Means Committee December 16 to 21, 1933, and January 9 to 11, 1934, pp. 112–113.

The PRESIDING OFFICER. The next committee amendment will be stated.

The next amendment was, on page 13, after line 11, to strike out:

SEC. 102. Surtax on corporations.

(a) General rule: The Internal Revenue Code is amended by inserting after section 15 a new section to read as follows:

"SEC. 16. Surtax on corporations.

Mr. GEORGE. Mr. President, this amendment is of a minor nature.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment on page 13, after line 11.

The amendment was agreed to.

The next amendment was, on page 13, after line 17, to insert:

SEC. 104. Surtax on corporations and termination of defense tax.

(a) General rule: Section 15 of the Internal Revenue Code (relating to defense tax) is amended to read as follows:

"SEC. 15. Surtax on corporations.

The amendment was agreed to.

The next amendment was, on page 14, line 1, after "(b)", to insert a comma and "computed by limiting such credit to 85 percent of the net income in lieu of 85 percent of the adjusted net income"; in line 10, before the words "of the", to strike out "5 percent" and insert "6 percent"; and in line 14, before the words "of the", to strike out "$1,250, plus 6 percent" and insert "$1,500, plus 7 percent."

Mr. GEORGE. This amendment makes an increase in the surtax rates on corporations. The minority leader may wish to have it go over. I can explain in a moment what it does. So far as I know, it is not controversial.

The House increased the surtax on corporations. That is to say, in lieu of an increase in the normal rate the House imposed on corporations what is known as a surtax, and that surtax, as carried in the House provision, is 5 percent on corporations having an income of not exceeding $25,000 and 6 percent on the remainder.

The Senate committee further increased the surtax by 1 percent; that is to say, on corporate net incomes of not more than $25,000 the surtax is increased to 6 percent in the Senate committee bill, and on all above that to 7 percent. The reason why a surtax is imposed is stated in the House report. It is that there are many Federal obligations which are only partially federally tax exempt, and they are not subject to a normal tax; they are exempt from a normal tax. Through the imposition of a surtax we will reach the income from many of those obligations and make them taxable. That section does precisely what I have tried to explain; it simply increases by 1 percent the rate imposed by the House on both categories of corporations.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

The next amendment was, in "Sec. 363. Surtax on mutual investment companies", on page 15, line 10, before the words "of the", to strike out "5 per centum" and insert "6 per centum"; and in line 13, after the numerals "$25,000", to strike out "$1,250, plus 6 per centum" and insert "$1,500, plus 7 per centum."

Mr. GEORGE. That simply treats the mutual investment companies as other corporations, insofar as surtax increases are concerned.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

The next amendment was, on page 15, at the end of line 19, after the word "section", to strike out "16" and insert "15"; on page 16, at the end of line 2, after the word "section", to strike out "16" and insert "15"; in line 11, after the word "section", to strike out "16" and insert "15"; at the end of line 19, after the word "section", to strike out "16" and insert "15"; in line 24, after the numerals "14", to strike out "16" and insert "15"; and on page 17, line 2, after the word "or", to strike out "16" and insert "15."

Mr. GEORGE. That is a purely technical amendment, Mr. President.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

The next amendment was, on page 17, after line 3, to strike out:

SEC. 103. Income defense tax made permanent.

(a) The heading of section 15 of the Internal Revenue Code is amended to read as follows:

"SEC. 15. Defense tax."

(b) The first sentence of section 15 of the Internal Revenue Code is amended to read as follows:

"In the case of any taxpayer, the amount of tax under this chapter for any taxable year beginning after December 31, 1940, shall be the tax computed without regard to this section, increased by 10 per centum; except that in the case of a corporation the increase shall be limited to 10 per centum of the tax computed without regard to sections 16 and 363 and without regard to the amendments made by section 101 (a), (b), and (c) of the Second Revenue Act of 1940."

Mr. GEORGE. Mr. President, it is proper to strike out section 103 because the defense tax having been made permanent, there is no longer any necessity for retaining this section.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

Mr. HOLMAN. Mr. President, on page 17, line 2, after the word "or", was it agreed to strike out "16" and insert "15"?

Mr. GEORGE. That is simply a clerical amendment.

Mr. HOLMAN. But I think no action was taken upon it.

Mr. GEORGE. I ask that the purely clerical amendments be agreed to without having the clerk state them.

The PRESIDING OFFICER. These are changes in section numbers.

Mr. GEORGE. Mr. President, I now request that purely clerical changes in the numbers of sections be made without having the clerk state them.

The PRESIDING OFFICER. Without objection, it is so ordered.

The clerk will state the next amendment.

The next amendment was, on page 17, line 18, to change the section number from 104 to 105; in line 24, before the words "per centum", to strike out "25" and insert "27½"; on page 18, line 1, after the word "Than", to strike out "$23,800" and insert "$23,000"; in line 4, after the word "than", to strike out "$23,800" and insert "$23,000"; in line 8, after the word "than", to strike out "$23,800" and insert "$23,000"; in line 10, after the word "Than", to strike out "$23,800" and insert "$23,000"; in line 13, after the word "thereof", to strike out "$23,800" and insert "$23,000"; and in line 15, after the word "thereof", to strike out "25" and insert "27½."

The amendment was agreed to.

The next amendment was, on page 18, line 16, to change the section number from 105 to 106, and in line 20, before the words "per centum", to strike out "25" and insert "27½."

Mr. GEORGE. That is simply an integration of the defense tax.

The amendment was agreed to.

The next amendment was, on page 18, line 21, to change the section number from 106 to 107.

The amendment was agreed to.

The next amendment was, on page 20, after line 15, to strike out:

SEC. 109. Defense tax on personal holding companies and transfers to avoid income tax made permanent.

(a) Personal holding companies: Section 500 (b) of the Internal Revenue Code is amended by striking out "and before January 1, 1945," and by striking out in the heading "for 5 years."

(b) Transfers to avoid income tax: Section 1250 (b) of the Internal Revenue Code is amended by striking out "and before July 1, 1945," and by striking out in the heading "for 5 years."

And, on page 21, after line 2, to insert:

SEC. 110. Defense tax rates on personal holding companies and transfers to avoid income tax incorporated in rate schedules.

(a) Personal holding companies: Section 500 of the Internal Revenue Code (relating to tax on personal holding companies) is amended as follows:

(1) By striking out the heading "(a) General rule.—";

(2) By amending the rate schedule to read as follows:

"(1) 71½ percent of the amount thereof not in excess of $2,000; plus

"(2) 82½ percent of the amount thereof in excess of $2,000."; and

(3) By repealing subsection (b) (relating to defense tax for 5 years).

(b) Transfers to avoid income tax: Section 1250 of the Internal Revenue Code (relating

to tax on transfers to avoid income tax) is amended as follows:

(1) By striking out the heading "(a) General Rule.—";

(2) By striking out "25 percent" and inserting "27½ percent"; and

(3) By repealing subsection (b) (relating to defense tax for 5 years).

Mr. GEORGE. Mr. President, I may explain that this is simply the integration of the defense tax with the existing tax.

The amendment was agreed to.

The next amendment was, on page 22, after line 2, to insert:

SEC. 111. Personal exemption.

(a) Section 25 (b) (1) of the Internal Revenue Code is amended to read as follows:

"(1) Personal exemption: In the case of a single person or a married person not living with husband or wife, a personal exemption of $750; or in the case of the head of a family or a married person living with husband or wife, a personal exemption of $1,500. A husband and wife living together shall receive but one personal exemption. The amount of such personal exemption shall be $1,500. If such husband and wife make separate returns, the personal exemption may be taken by either or divided between them, except that if one spouse makes a return under Supplement T, the personal exemption of the other spouse shall be $750."

(b) Section 214 of the Internal Revenue Code (relating to personal exemption of nonresident alien individuals) is amended by striking out "$800" and inserting in lieu thereof "$750."

(c) Section 251 (f) of the Internal Revenue Code (relating to personal exemption of citizens entitled to benefits of section 251) is amended by striking out "$800" and inserting in lieu thereof "$750."

Mr. LA FOLLETTE. I think that amendment should go over.

Mr. GEORGE. This is the personal-exemption amendment, and I think it should go over, Mr. President.

Mr. LA FOLLETTE. It has been agreed that it will go over.

The PRESIDING OFFICER. The amendment will be passed over.

The next amendment was, at the top of page 23, to insert:

SEC. 112. Returns of income tax.

(a) Individual returns: Section 51 (a) of the Internal Revenue Code is amended to read as follows:

"(a) Requirement: The following individuals shall each make under oath a return stating specifically the items of his gross income and the deductions and credits allowed under this chapter and such other information for the purpose of carrying out the provisions of this chapter as the Commissioner with the approval of the Secretary may by regulations prescribe—

"(1) Every individual who is single or who is married but not living with husband or wife, if having a gross income for the taxable year of $750 or over.

"(2) Every individual who is married and living with husband or wife, if no joint return is made under subsection (b) and if—

"(A) Such individual has for the taxable year a gross income of $1,500 or over, and the other spouse has no gross income; or

"(B) Such individual and his spouse each has for the taxable year a gross income and the aggregate gross income is $1,500 or over."

(b) Fiduciary returns: Section 142 (a) of the Internal Revenue Code is amended to read as follows:

"(a) Requirement of return: Every fiduciary (except a receiver appointed by authority of law in possession of part only of the property of an individual) shall make under oath a return for any of the following individuals, estates, or trusts for which he acts, stating specifically the items of gross income thereof and the deductions and credits allowed under this chapter and such other information for the purpose of carrying out the provisions of this chapter as the Commissioner with the approval of the Secretary may by regulations prescribe—

"(1) Every individual having a gross income for the taxable year of $750 or over, if single, or if married and not living with husband or wife;

"(2) Every individual having a gross income for the taxable year of $1,500 or over, if married and living with husband or wife;

"(3) Every estate the gross income of which for the taxable year is $750 or over;

"(4) Every trust the net income of which for the taxable year is $100 or over, or the gross income of which for the taxable year is $750 or over, regardless of the amount of the net income; and

"(5) Every estate or trust of which any beneficiary is a nonresident alien."

(c) Information returns: Section 147 (a) of the Internal Revenue Code (relating to information at the source) is amended by striking out "$800" wherever occurring therein and inserting in lieu thereof "$750."

Mr. LA FOLLETTE. That amendment should go over.

Mr. GEORGE. Yes; the amendment should go over because it relates to personal exemptions. That continues to the top of page 25. All those amendments should go over.

The PRESIDING OFFICER. The amendment will be passed over.

Mr. OVERTON. Mr. President, may I ask the able Senator from Georgia whether it is contemplated to take up this amendment this afternoon, or whether it also will go over until tomorrow?

Mr. GEORGE. I will say to the Senator from Louisiana that the amendment will go over until tomorrow. I should like to dispose of it today, but it may be passed over until tomorrow.

The PRESIDING OFFICER. The next amendment will be stated.

The next amendment was, on page 27, after line 2, to insert:

SEC. 115. Short-term obligations issued on a discount basis.

(a) Discount accrued at maturity: Section 42 of the Internal Revenue Code (relating to period in which items of gross income are included) is amended by inserting at the end thereof the following new subsection:

"( ) Short-term obligations issued on discount basis.—In the case of any obligation of the United States or any of its possessions, or of a State or Territory, or any political subdivision thereof, or of the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding 1 year from the date of issue, the amount of discount at which such obligation is originally sold shall not be considered to accrue until the date on which such obligation is paid at maturity, sold, or otherwise disposed of."

(b) Capital gain rule not applicable.—Section 117 (a) (1) of the Internal Revenue Code (relating to definition of capital assets) is amended by striking out the semicolon at the end thereof and inserting in lieu thereof the following: ", or an obligation of the United States or any of its possessions, or of a State or Territory, or any political subdivision thereof, or of the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding 1 year from the date of issue;".

(c) Effective date of amendments: The amendments made by this section shall be applicable with respect to taxable years ending after February 28, 1941.

Mr. GEORGE. Mr. President, I will explain the amendment. I do not think it is controversial. This section was not contained in the bill as it passed the House. It provides that in the case of certain short-term Federal, State, and local government obligations issued on a discount basis on or after March 1, 1941, the amount of the discount shall not be deemed to accrue until such obligation is paid at maturity, sold, or otherwise disposed of, and that such obligations shall not be treated as capital assets. That is a statement of the substance of the amendment; and I may say that the amendment was recommended by the Treasury Department. This section applies only to those short-term obligations. It is intended to save much bookkeeping and more realistically to represent the actual transaction.

The PRESIDING OFFICER. The question is on agreeing to the amendment reported by the committee.

The amendment was agreed to.

The PRESIDING OFFICER. The next committee amendment will be stated.

The next amendment was, on page 28, after line 19, to insert:

SEC. 117. Alimony and separate maintenance payments.

(a) Amount includible in gross income: Section 22 (relating to definition of gross income) of the Internal Revenue Code is amended by inserting at the end thereof the following new subsection:

"(k) Alimony, etc., income: In the case of an individual who is divorced or legally separated from a spouse under a decree of divorce or of separate maintenance, periodic payments received (subsequent to such decree) in discharge of, or attributable to property transferred in discharge of, a legal obligation imposed upon or incurred by such individual's spouse or former spouse under such decree or under a written instrument incident to such divorce or separation shall be includible in the gross income of such individual, and such amounts received as are attributable to property so transferred shall not be includible in the gross income of such other spouse or former spouse. This subsection shall not apply to that part of any such periodic payment which, by the terms of the decree or written instrument, is specifically designated as a sum payable for the support of minor children of the spouses. Installment payments discharging a part of an obligation the principal sum of which is, in terms of money or property, specified in the decree or instrument, shall not be considered periodic payments for the purposes of this subsection. (For amount includible under this subsection in case the property is held in trust, see section 171.)"

(b) Deduction for amounts paid: Section 23 of the Internal Revenue Code (relating to deductions from gross income) is amended by inserting at the end thereof the following new subsection:

"(u) Alimony, etc., payments: In the case of an individual, amounts includible under section 22 (k) in the gross income of a spouse (or former spouse) of such individual, payment of which is made within the individual's taxable year. If the amount of any such payment is, under section 22 (k) or section 171, excluded from such individual's gross income, no deduction shall be allowed

with respect to such payment under this subsection."

(c) Income from trusts: Supplement E of the Internal Revenue Code is amended by inserting at the end thereof the following new section:

"SEC. 171. Trust income in case of divorce, etc.

"There shall be included in the gross income of an individual who is divorced or legally separated under a decree of divorce or of separate maintenance the amount of the income of any trust such individual is entitled to receive which, except for the provisions of this section, would be includible in the gross income of such individual's spouse or former spouse, and such amount shall not, despite section 166, section 167, or any other provision of this chapter, be includible in the gross income of such spouse or former spouse. This section shall not apply to that part of any such periodic payment which, by the terms of the decree or trust instrument, is specifically designated as a sum payable for the support of minor children of the spouses."

(d) Credit for dependents: Section 25 (b) (2) of the Internal Revenue Code (relating to credit for dependents) is amended by inserting at the end thereof the following: "A payment to an individual's spouse or former spouse which is includible under section 22 (k) or section 171 in the gross income of such spouse or former spouse shall not be considered a payment by such individual for the support of minor children of such persons."

(e) Effective date of amendments: The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1941.

Mr. GEORGE. Mr. President, this is the alimony provision which I explained somewhat in detail. It is inserted in the bill for the purpose of ironing out differences which have grown up by virtue of differing State laws and also for the purpose of making certain when the payment of alimony or separate maintenance is taxable to the husband rather than to the wife; that is, to make it clear where it is taxable. The general principle is that a payment made as alimony or for separate maintenance is not taxable to the husband but is taxable to the recipient, and that same general principle is applicable to a trust set up for the payment of alimony or separate maintenance.

The PRESIDING OFFICER. The question is on agreeing to the amendment reported by the committee.

The amendment was agreed to.

The PRESIDING OFFICER. The next committee amendment will be stated.

The next amendment was, on page 31, after line 11, to insert:

SEC. 118. Extension of time of orders of Securities and Exchange Commission.

Section 373 (a) of the Internal Revenue Code (relating to the definition of orders of the Securities and Exchange Commission with respect to which Supplement R applies) is amended to read as follows:

"(a) The term 'order of the Securities and Exchange Commission' means an order (1) issued after May 28, 1938, and prior to January 1, 1943, by the Securities and Exchange Commission to effectuate the provisions of section 11 (b) of the Public Utility Holding Company Act of 1935, 49 Stat. 820 (U. S. C., Supp. III, title 15, sec. 79 (b)), or (2) issued by the Commission subsequent to December 31, 1942, in which it is expressly stated that an order of the character specified in clause (1) is amended or supplemented, and (3) which has become final in accordance with law."

Mr. GEORGE. This amendment, Mr. President, I am sure is not controversial. The Securities and Exchange Commission requested the amendment and the Treasury Department has approved it. It is necessary by reason of the fact that distributions of property and divestments of property under the Public Utilities Holding Act of 1935, made under order of the Commission, are given special taxable treatment. The time in which the orders could be issued by the Securities and Exchange Commission expired on January 1 of this year. The Commission is still issuing orders, and has represented to the committee that it will continue to issue them during 1942. The entire amendment is intended merely to extend until January 1, 1943, the time within which utility corporations making distributions or divestments may receive the same treatment as like utility corporations have heretofore received when the distribution or divestment was made under an order of the Commission.

The PRESIDING OFFICER. The question is on agreeing to the amendment reported by the committee.

The amendment was agreed to.

The PRESIDING OFFICER. Section 119, beginning in line 4, on page 32, relating to community income, has heretofore been ordered passed over. The next amendment reported by the committee will be stated.

The next amendment was, on page 33, line 4, after the word "sections", to strike out "106 and 112" and insert "107, 115, 116, and 117."

The amendment was agreed to.

The next amendment was, under the heading "Title II—Excess-profits tax", on page 33, after line 16, to strike out:

"(2) Special rule in certain cases where invested capital credit is used: In the case of a taxpayer entitled to have its excess profits credit computed under either section 713 (income credit) or section 714 (invested capital credit), if the use of the credit under section 714 is more advantageous to the taxpayer, the tax imposed by this section shall be the sum of—

"(A) an amount determined under paragraph (1) of this subsection with the use of the credit provided in section 714, plus—

"(B) Ten percent of the amount, if any, by which—

"(i) the adjusted excess profits net income computed with the use of the credit under section 713 and with the excess profits credit carry-over which would be available for the taxable year if the excess profits credit applicable to each of the preceding taxable years for which tax is imposed by this subchapter had been the excess profits credit computed under section 713, exceeds

"(ii) the adjusted excess profits net income computed with the use of the credit under section 714.

"(3) Limitation on application of special rule: If the tax under paragraph (2) is greater than the amount determined, with the use of the credit provided in section 713, under paragraph (1) of this subsection, the tax shall be the amount so determined under paragraph (1)."

The PRESIDING OFFICER. Without objection, the amendment is agreed to.

The next amendment was, at the top of page 36, to strike out:

SEC. 202. Disclaimer of credit.

(a) Section 712 (c) of the Internal Revenue Code (relating to disclaimers of excess-profits credit) is amended to read as follows:

"(c) Effect of disclaimer of credit: If the taxpayer states in its return for the taxable year under this subchapter that it disclaims the use of the credit computed under section 714, such credit shall not, for the purposes of the internal revenue laws, be applicable to the computation of the tax under this subchapter for such taxable year."

(b) The last sentence of section 729 (b) (1) is amended to read as follows: "If the taxpayer states in such return that it disclaims the use of the credit computed under section 714 in the computation of the tax under this subchapter for the taxable year, the computation and information based on such credit may be omitted from the return."

(c) Section 741 (b) of the Internal Revenue Code (relating to disclaimers of excess-profits credit) is amended to read as follows:

"(b) Effect of disclaimer of credit: If the taxpayer states in its return for the taxable year under this subchapter that it disclaims the use of the credit computed under section 714, such credit shall not, for the purposes of the internal revenue laws, be applicable to the computation of the tax under this subchapter for such taxable year."

Mr. GEORGE. That amendment I think is tied in with the provision of the House bill relating to the special 10-percent excess-profits tax. That should go over. I think the Senator from Wisconsin desires to discuss that section.

Mr. LA FOLLETTE. I did not understand that the amendment on page 32 had automatically gone over.

Mr. GEORGE. Yes; that amendment has gone over.

Mr. LA FOLLETTE. The Senator previously asked that it go over. I did not know that he had done so.

Mr. GEORGE. Then we might proceed regularly with the amendment on page 33.

The PRESIDING OFFICER. The amendment beginning at the bottom of page 33 has been agreed to.

Mr. GEORGE. Very well.

Mr. LA FOLLETTE. Mr. President, the amendment on page 33, paragraph 2, I ask to have excepted from the agreement. The amendment, beginning on page 33, line 17, and going down to line 17, on page 35, provides for the elimination of the so-called 10-percent tax. I ask that the amendment be passed over.

Mr. GEORGE. Then, the amendment relating to the disclaimer of credit should go over.

Mr. LA FOLLETTE. That should go over also.

The PRESIDING OFFICER. Without objection, the vote by which the amendment beginning on page 33, line 17, was agreed to, is reconsidered, and, without objection, that amendment and the amendment at the top of page 36 will be passed over. The next amendment reported by the committee will be stated.

The next amendment was, at the top of page 37, to strike out:

SEC. 203. Cases in which no return required.

Section 729 (b) (2) of the Internal Revenue Code is amended to read as follows:

"(2) No return required. Notwithstanding subsection (a), no return under section 52 (a) shall be required to be filed under this subchapter:

"(A) By any taxpayer entitled to have its excess-profits credit computed under either section 713 or section 714 for any taxable year for which its excess-profits net income, computed with the adjustments provided in section 711 (a) (1) and placed on an annual

basis as provided in section 711 (a) (3), is not greater than $5,000; or

"(B) By any taxpayer not entitled to have its excess-profits credit computed under section 713 for any taxable year for which its excess-profits net income, computed with the adjustments provided in section 711 (a) (2) and placed on an annual basis as provided in section 711 (a) (3), is not greater than $5,000."

The amendment was agreed to.

The next amendment was, on page 43, after line 4, to strike out:

(i) Adjusted declared value:

(1) Section 1202 (b) (1) (C) of the Internal Revenue Code is amended to read as follows:

"(C) its net income, computed without the deduction of the tax imposed by Subchapter E of Chapter 2,".

(2) Section 1202 (b) (1) (iii) is amended to read as follows:

"(iii) the excess of the deductions allowable for income-tax purposes (not including the deduction for the tax imposed by Subchapter E of Chapter 2) over its gross income."

Mr. ADAMS. Mr. President, I should like to have some information from the Senator from Georgia, not with reference to the pending committee amendment, but with reference to the provisions on pages 40 and 41. As I understand, under the existing law amounts paid as excess-profits taxes are deductible by the taxpayer when he is computing his net income. This provision takes away that privilege and denies the taxpayer the right to deduct such items in computing his taxable income. Am I correct in that statement?

Mr. GEORGE. I do not quite understand the Senator. He is referring to the excess-profits tax?

Mr. ADAMS. I am referring to page 40. There is subsection (A), beginning "Section 711," and so forth, then there is a second subsection with a capital (A), and there is subsection (C) at the bottom of page 40 and the top of page 41.

Mr. GEORGE. I will explain to the Senator very briefly, because that is a section which the Finance Committee did not amend, and, under the order, we are proceeding first with committee amendments. The matter referred to by the Senator from Colorado brings up what is popularly referred to as the reversal of credit; that is to say, under the Excess Profits Tax Act of 1940 the net income of a corporation is reduced by the amount of the normal tax in arriving at excess-profits net income. In other words, the corporation has the benefit of a deduction for normal tax accrued or paid. The House bill reverses that, and denies to the corporation the credit for the normal tax, which, under this bill, would be 31 percent on incomes of more than $25,000. It denies the right to deduct the normal tax for excess-profits-tax purposes and gives to the corporation the right to deduct the excess-profits tax for normal and surtax purposes.

In other words, if I may illustrate it imperfectly, as the Senator will understand—but I think we both understand what I have in mind——

Mr. ADAMS. I never heard the Senator do anything imperfectly.

Mr. GEORGE. Yes; this will be very imperfect.

Suppose a corporation has an excess-profits credit of $80,000 based on its invested capital. It earns $105,000. Its credit is $80,000; and under the language of the House bill to which the Senator is drawing attention, and under the bill as approved by the Finance Committee, the credit of $80,000 would, of course, be deducted, as now, from the $105,000 in arriving at excess profits. That is, the excess-profits credit on the invested-capital basis would be deducted from the $105,000 net income of the corporation, which would leave $25,000. By statutory exemption, the corporation is given the benefit of a $5,000 exemption, which would reduce the $25,000 to $20,000. Now, coming directly to the Senator's inquiry, under the change made by the House and approved by the Finance Committee, an excess-profits tax would be imposed upon the $20,000, and the corporation would be entitled to deduct excess-profits tax computed on that amount in computing its income subject to normal and surtax. I believe I have stated the matter reasonably accurately. In other words, the pending bill reverses the credit; whereas under existing law the corporation reduces its excess-profits net income by the normal tax.

Mr. ADAMS. As I get it, the subsection at the bottom of page 40 says:

In computing such normal-tax net income the deduction for the tax imposed by this subchapter shall not be allowed.

Mr. GEORGE. That is correct.

Mr. ADAMS. The existing law allows the deduction.

Mr. GEORGE. Exactly.

Mr. ADAMS. This denies the deduction.

Mr. GEORGE. Exactly. In computing the excess-profits tax a deduction is not allowed for the normal tax. But in computing the normal and surtax a deduction is allowed for the excess-profits tax of the same year.

Mr. ADAMS. Is not the practical result that at the present time the corporation pays the excess-profits tax, and that is deducted from the amount upon which the normal taxes are to be paid?

Mr. GEORGE. No; that is not the present law. That is what this bill does. Double taxation is avoided by permitting the excess-profits tax to reduce the net income subject to the normal and the surtax.

Mr. ADAMS. Yes; but what I am getting at is this: Does not this provision practically require the corporation to pay taxes upon money which it is compelled to pay the Government as excess-profits taxes? In other words, is it not being compelled to pay taxes upon money which it is required to pay the Government—that is, a tax upon a tax?

Mr. GEORGE. No; it is paying only on the excess-profits net income. The Senator is dealing with a highly controversial matter on which there is a wide difference of opinion; but what the House did in its bill and what the Senate committee is now recommending is to go back to the same rule that was applied in the first World War Excess Profits Tax Act. It is the same rule that is now applied in Great Britain. In effect, it is very nearly the same principle which is applied by the Dominion of Canada.

What happens is this: In the example which I gave, if the corporation has earned $105,000, it has an excess-profits credit of $80,000 on the invested-capital basis. The credit is subtracted from the net income. From the income of the corporation of $105,000, $80,000 is subtracted, leaving $25,000, from which the corporation is entitled to take $5,000 as a statutory deduction, leaving $20,000, and then the excess-profits rate is applied to the $20,000. The excess-profits rate in the House bill—and the Finance Committee has approved it—is 35 percent upon the first $20,000; so 35 percent of the $20,000 is $7,000 and is the amount of the excess-profits tax that would be paid. The corporation is entitled to deduct this $7,000 in computing its income subject to the normal and the surtax.

In the same example as applied to existing law, the corporation would pay a normal tax of 24 percent. That 24 percent, or a little over $25,000, would be taken off the $105,000, leaving $80,000. It has an $80,000 credit on the invested-capital basis, which, under existing law, would result in no excess-profits tax. It just happens to work out that way in the example I have given the Senator; but I think the principle is clear. That is to say, I think what the House has done and what the Senate Finance Committee has approved is clear—that a corporation is not entitled to the deduction, when it comes to compute its excess-profits taxes, of the normal tax; but, on the contrary, on account of the reversal of the credit, so to speak, it is entitled to deduct the excess-profits tax in arriving at its taxable net income for normal and surtax purposes.

Mr. ADAMS. I am obliged to the Senator, because while I knew this matter was not involved in the amendment I was rather inclined to think the reversal in policy was substituting an unfair method for a fair method. I may bother the Senator again later on in the discussion.

Mr. GEORGE. The change makes the corporations pay more excess-profits taxes. There is no question about that.

Mr. ADAMS. It looks as though it is making them pay taxes on taxes which they are paying.

Mr. GEORGE. I think the principle of avoiding double taxation is pretty well maintained. So long as the excess-profits tax is allowed as a deduction in computing income subject to normal and surtax, there is no double taxation of the same income.

The PRESIDING OFFICER (Mr. SMATHERS in the chair). The question is on agreeing to the committee amendment as stated.

The amendment was agreed to.

The next amendment was, on page 44, after line 12, to insert "(or would be applicable except for section 371 (g))."

Mr. GEORGE. That is a technical amendment.

The amendment was agreed to.

The next amendment was, on page 47, after line 13, to strike out:

SEC. 206. Corporations engaged in mining strategic metals.

Section 731 of the Internal Revenue Code (exempting from excess-profits tax income derived from mining certain metals) shall not apply with respect to any taxable year beginning after December 31, 1940.

Mr. GEORGE. That is a so-called strategic-metals amendment, Mr. President. It will be remembered that in the Excess Profits Tax Act of last year we exempted from the excess-profits tax income the production of certain strategic metals of which there was and always is a shortage in this country, and which cannot be produced here in the absence of much higher tariff rates or in an emergency such as we are now going through, when bottoms are not available for import. This amendment restores the same exemption which was carried in that act.

Mr. ADAMS. This amendment leaves the existing section 731, which protects domestic corporations engaged in the mining of tungsten, quicksilver, manganese, platinum, antimony, chromite, or tin. That is, those are the strategic minerals protected by that section.

Mr. GEORGE. The Senator is right. The House struck out that section, and made income from the production of those metals subject to the excess-profits tax, and we have restored the exemption.

Mr. ADAMS. I know the mining sections of the country are appreciative of the consideration the committee gave.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment as stated.

The amendment was agreed to.

Mr. HOLMAN. Mr. President, I ask the indulgence of the Senator from Georgia. I want to be sure I understand this. Just what is the effect of the amendment?

Mr. GEORGE. The amendment on page 47?

Mr. HOLMAN. On page 47, section 206. What is the effect of that?

Mr. GEORGE. The amendment merely restores existing law. The House repealed an existing provision of the Excess Profits Tax Act which exempted profits made in producing certain strategic metals. The House repealed that and thereby made the producers of these strategic metals subject to the excess-profits tax. This amendment restores the exemption which the producers of those metals had before.

Mr. HOLMAN. In other words, the action is in compliance with the telegram I sent the Senator?

Mr. GEORGE. Exactly.

Mr. HOLMAN. I thank the Senator.

Mr. GEORGE. I received the Senator's telegram, and I hope I acknowledged it. If I did not, I am acknowledging it now.

The PRESIDING OFFICER. The question is on agreeing to the amendment on page 47, line 14.

The amendment was agreed to.

The next amendment was, under the heading "Title III—Capital Stock Tax and Declared Value Excess Profits Tax", on page 48, at the end of line 7, to insert "and by striking out the word 'adjusted' wherever occurring therein."

Mr. GEORGE. Mr. President, this merely integrates the defense tax with the capital-stock tax.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

The next amendment was, on page 48, after line 10, to insert:

(c) Annual declaration of value: Section 1202 of the Internal Revenue Code (relating to declaration of value) is amended to read as follows:

"SEC. 1202. Declared value.

"(a) Declaration of value: The declared value shall be the value as declared by the corporation in its return for the year (which declaration of value cannot be amended). The value declared by the corporation in its return shall be as of the close of its last income tax taxable year ending with or prior to the close of the capital-stock-tax taxable year.

"(b) Credit for China Trade Act Corporations: For the purpose of the tax imposed by section 1200 there shall be allowed in the case of a corporation organized under the China Trade Act, 1922 42 Stat. 849 (U. S. C., title 15, ch. 4), as a credit against the adjusted declared value of its capital stock, an amount equal to the proportion of such adjusted declared value which the par value of the shares of stock of the corporation, owned on the last day of the taxable year by (1) persons resident in China, the United States, or possessions of the United States, and (2) individual citizens of the United States or China wherever resident, bears to the par value of the whole number of shares of stock of the corporation outstanding on such date For the purposes of this subsection shares of stock of a corporation shall be considered to be owned by the person in whom the equitable right to the income from such shares is in good faith vested; and as used in this subsection the term 'China' shall have the same meaning as when used in the China Trade Act, 1922."

(d) Returns: Section 1203 (a) (2) of the Internal Revenue Code (relating to extensions of time for filing capital-stock-tax returns) is amended by inserting at the end thereof the following: "With respect to the year ending June 30, 1941, the extension may be for not more than 90 days."

(e) Prior returns effective: If a return is filed in accordance with section 1203 of the Internal Revenue Code with respect to the year ending June 30, 1941, on the basis of a 3-year declaration of value, the value declared on such return shall constitute the declared value for the purposes of section 1202 of the Internal Revenue Code, as amended by this section, for such year ending June 30, 1941, unless a different value is declared on another return filed within the time prescribed by law for filing such return.

Mr. GEORGE. Mr. President, I have an amendment to offer to this amendment, which is clerical only. On page 48, line 25, and on page 49, line 2, I move to strike out the word "adjusted."

The amendment to the amendment was agreed to.

The amendment as amended was agreed to.

The next amendment was, on page 50, at the beginning of line 4, to strike out "(c)" and insert "(f)", and in the same line, after the words "Effective Date", to strike out "Subsections (a) and (b)" and insert "This section."

Mr. GEORGE. This is a clerical amendment.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

The next amendment was, on page 50, after line 6, to strike out:

SEC. 302. Declared-value excess-profits tax—defense tax made permanent.

Section 600 (b) of the Internal Revenue Code is amended to read as follows:

"(b) Defense tax: In the case of any taxpayer, the amount of tax payable under this section for any income-tax taxable year ending after June 30, 1940, shall be 10 percent greater than the amount of tax which would be payable if computed without regard to this subsection."

And to insert:

SEC. 302. Declared value excess-profits tax—Defense-tax rates incorporated in rate schedule.

(a) Rates: Section 600 of the Internal Revenue Code (relating to rate of declared value excess-profits tax) is amended as follows:

(1) By striking out the heading "(a) General rule.—";

(2) By amending the rate schedule to read as follows:

"6.6 percent of such portion of its net income for such income-tax taxable year as is in excess of 10 percent and not in excess of 15 percent of the declared value;

"13.2 percent of such portion of its net income for such income-tax taxable year as is in excess of 15 percent of the declared value."; and

(3) By repealing subsection (b) (relating to defense tax for 5 years).

(b) Technical amendment: Section 601 (including the heading) of the Internal Revenue Code is amended by striking out the word "adjusted" wherever occurring therein.

(c) Effective date: This section shall be effective only with respect to income-tax taxable years ending after June 30, 1941, and succeeding years.

Mr. GEORGE. Mr. President, I may state that this merely integrates the defense tax.

The amendment was agreed to.

The CHIEF CLERK. The next amendment is in title IV, estate and gift taxes.

Mr. LA FOLLETTE. Mr. President, I ask that the estate-tax schedules and the gift-tax schedules go over, since I may wish to offer some amendments to them.

Mr. GEORGE. That is satisfactory.

The PRESIDING OFFICER. All of title IV will be passed over.

The clerk will state the next amendment.

The next amendment was, under the heading "Title V—Excise Taxes," in section 521, on page 58, after line 7, to strike out:

(1) Box seats: Section 1700 (b) (1) is amended by striking out "10 percent" and inserting in lieu thereof "11 percent."

(2) Sales outside box office: Section 1700 (c) (1) is amended by striking out "10 percent" and inserting in lieu thereof "11 percent."

Mr. GEORGE. It is probable that the admissions tax will be debated, and there may be some amendments. These sections would be related, and should not be disposed of until the admissions tax is disposed of.

The PRESIDING OFFICER. Does the Senator desire that all of title V be passed over?

Mr. GEORGE. Not all of title V; but no amendment is to be acted on until we reach page 62.

The PRESIDING OFFICER. The clerk will state the next amendment.

The next amendment was, in section 533, "Distilled spirits," on page 62, line 20, after the figure "$4", to strike out "(and on brandy at the rate of $3.75)", and on page 63, line 4, after the figure "$4", to strike out "(or, in the case of brandy, $3.75)."

Mr. GEORGE. I have already explained that that merely puts brandy on the same tax basis as distilled spirits.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

The next amendment was, in section 534, "Wines," on page 64, line 18, after the word "thereof", to strike out "8 cents" and insert "10 cents"; in line 19, after the word "thereof", to strike out "24 cents" and insert "35 cents", and in line 21, after the word "thereof", to strike out "50 cents" and insert "65 cents."

Mr. GEORGE. Mr. President, this amendment is an increase in the tax on wine. I do not know whether it is controversial or not. If the taxes in the wine schedule are agreed to, and anyone wishes to offer an amendment subsequently, I shall be glad to ask unanimous consent that the matter be reopened.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

The next amendment was, in the item relating to the rate on sparkling wines, liqueurs, cordials, etc., on page 65, line 1, after the word "thereof", to strike out "4 cents" and insert "7 cents", and in line 2, after the word "thereof", to strike out "2¼ cents" and insert "3½ cents".

The amendment was agreed to.

The next amendment was, in section 541, "Admissions tax", on page 67, line 25, after the word "Rate", to strike out "A tax of 1 cent for each 10 cents or fraction thereof of the amount paid for admission to any place, including admission by season ticket or subscription; except that in case the amount paid for admission is less than 10 cents, no tax shall be imposed. In the" and insert:

A tax on the amount paid for admission to any place, including admission by season ticket or subscription, at the rates set forth in the following schedule:

If the amount charged is—	The tax shall be—
Not over 10 cents	1 cent.
Over 10 cents and not over 15 cents	2 cents.
Over 15 cents and not over 20 cents	3 cents.
Over 20 cents and not over 25 cents	4 cents.
Over 25 cents and not over 35 cents	5 cents.
Over 35 cents and not over 40 cents	6 cents.
Over 40 cents and not over 45 cents	7 cents.
Over 45 cents and not over 50 cents	8 cents.
Over 50 cents	15 percent of the amount charged; fractions of ½ cent or more shall be increased to 1 cent; smaller fractions shall be disregarded.

Mr. GEORGE. This is the admissions tax.

Mr. LA FOLLETTE. I think this section should go over, since there is some controversy concerning it.

Mr. DAVIS. I should like to have it go over.

The PRESIDING OFFICER. The amendment will be passed over, and the clerk will state the next amendment of the committee.

The next amendment was, in section 548, telephone, telegraph, etc.—on page 78, after line 17, to strike out:

"(1) In the case of each telegraph, telephone, cable or radio dispatch, message, or conversation which originates within the United States for which the charge is more than 24 cents, a tax of 5 cents for each 50 cents, or fraction thereof, of the charge. Only one payment of such tax shall be required notwithstanding the lines or stations of one or more persons are used for the transmission of such dispatch, message, or conversation; and

"(2) A tax equivalent to 5 percent of the amount paid for any of the following services:

"(A) Leased wire or talking circuit special service; or

"(B) Wire and equipment services (including teletypewriter service, burglar alarm service, news ticker services, stock quotation and information services, and all other similar services)."

And insert:

"(1) (A) In the case of each telephone or radio telephone message or conversation which originates within the United States, for which the charge is more than 24 cents, a tax of 5 cents for each 50 cents, or fraction thereof, of the charge.

"(B) In the case of each telegraph, cable, or radio dispatch or message which originates within the United States, a tax of 10 percent of the amount of the charge.

Only one payment of a tax imposed by subparagraph (A) or (B) shall be required notwithstanding the lines or stations of one or more persons are used in the transmission of such dispatch, message, or conversation.

"(2) (A) A tax equivalent to 10 percent of the amount paid for leased wire, teletypewriter, or talking circuit special service.

"(B) A tax equivalent to 5 percent of the amount paid for any wire and equipment service (including stock quotation and information services, and all other similar services, but not including news ticker services furnishing a general news service similar to that contained in the public press, burglar or fire alarm service, or service described in subparagraph (A))."

Mr. GEORGE. Mr. President, it may be necessary to make a technical amendment to this section, and I ask that if the amendment shall be agreed to, we may have a right to recur to it if necessary.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered. The question is on agreeing to the amendment.

The amendment was agreed to.

The next amendment was, on page 80, line 13, before the words "of the", to strike out "5 percent" and insert "10 percent."

The amendment was agreed to.

The next amendment was, in section 549. Installment, etc., payments—on page 82, line 17, after the word "before", to strike out "July 1, 1941", and insert "the effective date of part IV of the Revenue Act of 1941"; and in line 19, after the word "on", to strike out "June 30, 1941", and insert "the day before the effective date of part IV of the Revenue Act of 1941"; and on page 83, line 2, after the word "before", to strike out "July 1, 1941", and insert "the effective date of part IV of the Revenue Act of 1941."

Mr. GEORGE. Mr. President, I should like to explain, because I think it is a matter of rather wide interest, that this amendment deals with the so-called installment sales provision of the bill. Under the amendment, the date July 1, 1941, as the House inserted it, is stricken out, and the effective date of part IV of the Revenue Act is inserted, and that is inserted also in line 19. The same principle is carried forward on page 83, and under the retail sales tax provision of the measure. Most Senators have had some complaints about taxes on installment sales, and these amendments have been recommended for the purpose of preventing the tax from being retroactive.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

The next amendment was, under the subhead "Part V—New excise taxes," on page 84, after line 19, to strike out:

SEC. 551. Soft drinks.

Subchapter A of chapter 29 of the Internal Revenue Code is amended by inserting after section 3401 the following new section:

"SEC. 3402. Tax on soft drinks.

"(a) Definitions: As used in this section—

"(1) The term 'soft drinks' means carbonated beverages of the kind commonly known as soft drinks, carbonated liquids of the kind commonly known or commonly used as mixers, sparkling waters, and carbonated natural or artificial mineral waters if such mineral waters contain not more than 60 grains of minerals (dried at the temperature of boiling water) per U. S. gallon. As used in this paragraph the term 'carbonated' includes both natural and artificial carbonation.

"(2) The term 'bottler' means any person who places soft drinks in bottles.

"(3) The term 'bottle' means any bottle, can, keg, or similar closed container.

"(b) Bottled soft drinks—

"(1) Imposition of tax: There shall be imposed on soft drinks in bottles sold by the bottler or importer a tax at the following rates:

"(A) If the bottle contains not more than 33 fluid ounces:

"If bottled or imported to retail at not more than 10 cents per bottle, ⅛ cent per bottle.

"If bottled or imported to retail at more than 10 cents and not more than 20 cents per bottle, ⅓ cent per bottle.

"If bottled or imported to retail at more than 20 cents per bottle, ½ cent per bottle.

"(B) If the bottle contains more than 33 fluid ounces, 6 percent of the price for which so sold.

"(2) Retail prices: Whenever in paragraph (1) reference is made to soft drinks bottled or imported to retail at not more than a certain price per bottle, then in determining the tax to be paid regard shall be had to the ordinary retail price of a single bottle in its principal market.

"(c) Finished or fountain syrups—

"(1) Imposition of tax: There shall be imposed upon finished or fountain syrups, of the kind used in manufacturing, compounding, or mixing soft drinks, sold or used by the manufacturer, producer, or importer, a tax of 6 cents per gallon.

"(2) Exempt sales: No tax shall be imposed under this subsection with respect to the sale of such syrups where it is established to the satisfaction of the Commissioner that such syrups are sold (A) to a bottler for use in the preparation of bottled soft drinks, or (B) to a person who does not engage in the preparation of soft drinks for consumption by him in some use other than the preparation of soft drinks.

"(3) Exempt uses: No tax shall be imposed under this subsection with respect to—

"(A) The use of such syrups by the manufacturer, producer, or importer in the preparation of bottled soft drinks; or

"(B) The consumption of such syrups by the manufacturer, producer, or importer, who is not engaged in the preparation of soft drinks, in some use other than the preparation of soft drinks.

"(d) Carbonic acid gas:

"(1) Imposition of tax: There shall be imposed upon carbonic acid gas in gaseous, liquid, or solid form, suitable for use in the preparation of soft drinks, sold by the manufacturer, producer, or importer, or by a dealer in such gas, to any person who sells soft drinks otherwise than in bottles, a tax of 4 cents per pound.

"(2) Exempt sales: No tax shall be imposed under this subsection with respect to the sale of carbonic acid gas where it is established to the satisfaction of the Commissioner that—

"(A) Such gas is sold for use by the vendee in the preparation of bottled soft drinks, or for consumption by him in some use other than the preparation of soft drinks; or

"(B) Such gas is sold for resale by the vendee in the course of his regular business as a dealer in carbonic acid gas, if such gas is in due course so resold.

"(e) Inapplicability of provisions: The provisions of section 3442 (1) and (2), section 3443 (a), (1), and section 3444 shall not be applicable to the taxes imposed by this section.

"(f) Effective date: This section shall take effect on the effective date of part V of title V of the Revenue Act of 1941."

Mr. GEORGE. This is the so-called soft-drinks tax.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

The next amendment was, in the item relating to new manufacturers' excise taxes, on page 89, line 9, after the word "creels," to strike out "reels, and artificial lures, baits, and flies" and insert "and reels."

Mr. GEORGE. Mr. President, all the amendment accomplishes is the striking from the section imposing a tax on sporting goods of the words "artificial lures, baits, and flies." We thought it wise to eliminate them.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

The next amendment was, on page 90, line 13, after the word "electric," to insert a comma and "gas, and oil"; and in line 15, after the word "electric," to strike out "storage" and insert "gas, or oil," and in line 18, after the word "electric," to insert "gas, or oil."

Mr. GEORGE. Mr. President, that amendment was made because of many objections which reached the committee that the section as written was discriminating in that it imposed a manufacturer's sales tax on only electric heaters, and so forth, and the committee amended it by including not only electric, but gas and oil heaters, and so forth.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment.

The amendment was agreed to.

The next amendment was, on page 91, line 17 after the word "devices", to strike out "comptometers," and in line 18, after the word "dictographs", to strike out "dictaphones, dictaphone" and insert "dictating machine."

Mr. GEORGE. Mr President, the sole purpose of that amendment was to take out of the section trade names and insert other descriptive terms which would cover the articles which are taxable.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment.

The amendment was agreed to.

The next amendment was, in the item relating to washing machines, on page 92, line 16, after the word "machines", to strike out "of the kind used in commercial laundries, 10 percent. No tax shall be imposed under this paragraph on washing machines of the household type" and insert "10 percent."

Mr. GEORGE. Mr. President, that is the washing-machines amendment. Under the House provision a manufacturer's excise tax was imposed upon washing machines used in commercial laundries. The Senate Finance Committee has stricken out the descriptive words after "machines" so as to make the provision applicable to all washing machines.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment.

The amendment was agreed to.

The next amendment was, at the top of page 93, to insert:

(10) Electric-light bulbs: Electric-light bulbs, 10 percent.

Mr. GEORGE. Mr. President, this is a new section added by the Senate committee, and provides a manufacturer's excise tax on electric-light bulbs at the same rate generally carried in the bill, to wit, 10 percent.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment.

The amendment was agreed to.

The next amendment was, in the item relating to tax on jewelry, etc., on page 94, line 1, after the word "instruments", to strike out the word "or", and in line 2, after the word "eyeglasses", to insert a comma and "or to a fountain pen if the only part of the pen which consists of precious metals is the point."

Mr. GEORGE. Mr. President, that amendment simply takes fountain pens out of this jewelry section, when the only part of the pen which consists of precious metal is the point.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment.

The amendment was agreed to.

The next amendment was, in the item relating to "Return and Payment of Retailers' Excise Taxes," on page 95, after line 22, to insert:

(c) In determining, for the purposes of this chapter, the price for which an article is sold, there shall be included any charge for coverings and containers of whatever nature, and any charge incident to placing the article in condition packed ready for shipment, but there shall be excluded the amount of tax imposed by this chapter, whether or not stated as a separate charge. A transportation, delivery, insurance, installation, or other charge (not required by the foregoing sentence to be included) shall be excluded from the price only if the amount thereof is established to the satisfaction of the Commissioner, in accordance with the regulations. There shall also be excluded, if stated as a separate charge, the amount of any retail sales tax imposed by any State or Territory or political subdivision of the foregoing, or the District of Columbia, whether the liability for such tax is imposed on the vendor or the vendee.

Mr. GEORGE. Mr. President, that is a Treasury Department amendment. It has been found necessary to apply the same principles that are applied to existing manufacturers' excise taxes. The amendment is also for the purpose of protecting the revenue.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment.

The amendment was agreed to.

The next amendment was, in the item relating to leases, conditional sales, etc., on page 97, line 5, after the word "before", to strike out "July 1, 1941" and insert "the effective date of part V of the Revenue Act of 1941."

Mr. GEORGE. Mr. President, that is a retail sales provision, so as not to have a retroactive tax on installment sales.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment.

The amendment was agreed to.

The next amendment was, in the item relating to credits and refunds, on page 98, after line 10, to insert:

(c) There shall be credited against the tax payable under subsection (b) of section 2402 the amount of tax paid by any person under subsection (a) of such section with respect to any article subject to tax under subsection (b) of such section.

Mr. GEORGE. Mr. President, that amendment is intended merely to give a rebate or refund to beauty parlors, barber shops, and others who buy at retail any articles upon which the tax has been paid under the cosmetics section.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment.

The amendment was agreed to.

The next amendment was, on page 98, after line 21, to insert:

SEC. 2409. Penalty for representation that tax is not passed on.

Whoever in connection with the sale or lease, or offer for sale or lease, of any article taxable under this chapter, makes any statement, written or oral, in advertisement or otherwise, intended or calculated to lead any person to believe that the price of the article does not include the tax imposed by this chapter, shall on conviction thereof be punished by a fine of not more than $1,000.

Mr. GEORGE. Mr. President, this amendment was offered by the senior Senator from Ohio [Mr. TAFT] in the committee. It is in effect a condemna-

tion of unfair trade practices. It is intended to prevent any representation, however made by any retailer, that he is absorbing the tax, or at least that the price made upon the article sold does not include the tax.

Mr. ADAMS. Mr. President, the person in question would be prosecuted even though the statement made were absolutely true?

Mr. GEORGE. Yes. There is a tax on the article, and it is made unlawful for him to advertise or hold himself out as selling an article for a price which does not include the tax.

Mr. ADAMS. I wish to ask the Senator a question. Suppose an article had a fixed price, and it was continued to be sold at that price, and there was no change of price, but the manufacturer simply reduced his own profits by an amount equal to the tax. Why should such action be an offense?

Mr. GEORGE. The purpose of the amendment is to characterize that kind of thing as an unfair trade practice.

Mr. ADAMS. It would be unfair for the manufacturer himself to pay the tax?

Mr. TAFT. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. TAFT. The provision applies only to retailers.

Mr. ADAMS. Why should it be a crime for the retailer in fact to pay the tax rather than to pass it on to the consumer?

Mr. GEORGE. He can pay the tax, but he cannot advertise that the price does not include the tax.

Mr. ADAMS. But this provision makes it an offense if he tells the truth about the matter.

Mr. GEORGE. If he says the price does not include the tax on the article. He can pay the tax. The tax is there, and he can pay it.

Mr. ADAMS. But if he says that he has paid the tax, and says it truthfully, then he commits a crime, does he?

Mr. GEORGE. Mr. President, I will let the Senator from Ohio answer.

Mr. TAFT. Mr. President, I think I might explain first the purpose of the provision. This is what will more than likely happen under this tax, if we do not have such a provision in the measure. A large department store will advertise, "We absorb the tax on all cosmetics." The small fellow cannot absorb the tax. Either he will offer the cosmetics as a loss leader or he will misrepresent the facts. In effect, what he does if he sells at a lower price without counting the tax is to reduce the cost of his article. He is selling it at a lower price. He is paying that tax money to the Government as a part of his cost necessarily, and it cannot be said that he is absorbing the tax. In many cases he will not be absorbing the tax.

Take the case of credit jewelers, and this applies only to retailers. A credit jeweler will advertise in order to get custom, that "I will absorb the tax on jewelry." As a matter of fact, how can one tell whether he is absorbing the tax or not? One could not prove whether he was absorbing the tax or whether he was lowering the price of his particular article and adding the tax in.

We considered the possibility of requiring him separately to state the tax, but that would create a tremendous complication when there is a fractional tax. An article selling for 25 cents, for instance, has a 2½-cent tax. Does the seller absorb that or not? He cannot under another statute represent that he is going to sell that article at 25 cents, plus 3 cents tax, because that is a crime. If it is only 2½ cents, he cannot advertise the tax to be more than it is. So he is in a position where he cannot be required separately to state the tax. He cannot say what the price is and what the tax is. He cannot meet the situation in that way.

Many of the members of the committee thought there ought to be a compulsory requirement that the seller be forced to pass the tax on, because, after all, we are reaching his profits through an excess-profits tax, or through an income tax, or through surtaxes, and it is admittedly the purpose in imposing these taxes to pass them on to the consumer. The only method that seemed to be practical was simply to say, "We cannot determine whether you passed that tax on or not, but you cannot go out and use as an advertisement to induce trade the claim that you are not passing on the tax, whether you are passing it on or whether you are not passing it on."

Nearly every retailer in the United States wants this amendment. All the smaller retail stores, particularly, want it. All the regular jewelers want it, because they say that credit jewelers can put the tax in in the form of extended payments. They all charge a large premium for giving time on such purchases.

The object seems to be a perfectly ligitimate one. It is to prevent retailers from using the retail tax as a means of attracting trade, claiming that they are absorbing the tax when probably they are not, and when even if they are absorbing the tax they ought not to be doing so. If it were practical to do so, they ought to be required to say, "This is the price, and this is the tax." They ought to be separately stated. Unfortunately, with a fractional tax, that cannot be done.

Mr. ADAMS. I can understand the reason for punishing any one for making a false statement; but this amendment would punish a person even when he makes a statement which is true.

Mr. TAFT. It is impossible to prove the facts. If a man sells an article for 30 cents it is impossible to prove whether he is absorbing the tax or not. That is merely a matter of calculation. He may say that he is absorbing the tax, or he may say that the price is 27½ cents and the tax is 2½ cents; or he may say that the price is 30 cents. How can it be proved whether or not he is absorbing the tax? It is not a matter of fact which can be proved. All we are trying to prevent is the gaining of trade by a claim that the retailer is absorbing the tax, thereby forcing everybody in the trade to claim that he is absorbing the tax, and to invent all sorts of methods for evading the fact, when it cannot possibly be proved whether he is absorbing the tax or not.

Mr. ADAMS. The theory of the amendment is the assumption that a man is guilty, because the fact is difficult to prove. Some men may tell the truth about it. It is proposed to prosecute a man who tells the truth, because it is difficult to convict the man who makes a false statement.

Mr. TAFT. No. The great majority of retailers are wholly unable to absorb the tax. Do we want to give the big retailer, who can conceivably absorb the tax, the advantage of gaining trade by the advertisement of that fact? I think not. It is obvious that such a course would put everyone else at a disadvantage. It would permit a big retailer to carry out the very practice which is forbidden by the Miller-Tydings law or the Federal Trade Commission laws with regard to loss leaders. It would permit a man to avail himself of this particular retailer's tax to carry on what is in fact unfair competition. It is not necessary to prohibit the retailer from absorbing the tax; but it seems to me it is necessary to prohibit him from making that fact an advertising feature of his business, even though it be true that he absorbs the tax.

Mr. ADAMS. I do not see why a man should be punished for telling what is conceded to be the truth, if in fact he is telling the truth, simply because it is difficult to establish what is the truth.

Mr. TAFT. If it were possible, I should be in favor of prohibiting the retailer from absorbing the tax. Such a thing would be impracticable. It seems to me that the next best thing is to prevent his attracting customers by advertising that he is absorbing the tax. Whether he is absorbing it or not, I think, makes no difference. It is not a tax question. It is really a fair trade question. Since we are creating the means by which he can carry on unfair competition against his competitors, I think it is proper to provide in the bill a defense against his using the tax for that particular purpose.

Mr. ADAMS. The Senator is discussing the matter entirely from the standpoint of the man who is selling. I am thinking of it partly from the standpoint of the man who is buying. The Senator would prohibit the seller from absorbing the tax.

Mr. TAFT. In the State of Ohio we have a 3-percent sales tax. I believe it is the most successful sales tax in the United States. It has created less trouble and has resulted in the collection of more money in proportion to the population than any other tax. In that State the retailers are required to pass on the tax. That is easy to do, because they do it through the stamp system. A 1-cent stamp is issued for the first 40 cents, a 2-cent stamp up to 70 cents, and so forth. The retailer must give the customer a stamp showing what the tax is. He may not absorb the tax. He must pass the tax on. He may reduce his price, but he must pass on the tax. That system has worked. It has met with universal approval. It has met with no criticism. It has prevented the use of the sales tax as a means of unfair competition. The amendment reported by

the committee is as close as we can come to that system under this kind of a retail sales tax.

Mr. SCHWARTZ. Mr. President, will the Senator yield?

Mr. TAFT. I yield.

Mr. SCHWARTZ. The effect of the amendment is that as a matter of public policy the dealer is prohibited from making any representation about the tax.

Mr. TAFT. That is true. As a matter of public policy he shall not make any representation that he is absorbing the tax to induce trade to come to his store.

Mr. ADAMS. It is a system of regimentation to prevent people from telling the truth.

Mr. TAFT. Not at all. It has nothing to do with their telling the truth. It is to require them, in effect, to pass on the tax.

Mr. DANAHER. Mr. President, I am in favor of the amendment reported by the committee. While I usually take everything that comes from the Committee on Finance without dotting an "i" or crossing a "t," I point out to the chairman that before we vote on the amendment I do not quite know what to do when there is no "t." [Laughter.] If the chairman will look on page 99, in line 1, he will find the word "written" with a "t" missing. I ask unanimous consent to insert it.

Mr. GEORGE. Mr. President, that is a satirical amendment, but it is entirely agreeable.

The PRESIDING OFFICER. Without objection, the amendment to the amendment is agreed to.

The question now is on agreeing to the amendment as amended.

The amendment as amended was agreed to.

The next amendment was, on page 99, after line 16, to insert:

SEC. 553. Administrative changes in manufacturers' excise-tax title of code.

(a) Leases: Section 3440 of the Internal Revenue Code is amended to read as follows: "SEC. 3440. Definition of sale.

"For the purposes of this chapter the lease of an article (including any renewal or any extension of a lease or any subsequent lease of such article) by the manufacturer, producer, or importer shall be considered a taxable sale of such article."

Mr. GEORGE. Mr. President, that amendment is inserted to make it clear that not only a lease but also any renewal or extension of the lease of an article subject to the manufacturers' excise tax is to be regarded as a taxable sale of such article.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment on page 99, after line 16.

The amendment was agreed to.

The next amendment was, on page 100, after line 2, to insert:

(b) Existing contracts: Chapter 29 of the Internal Revenue Code is amended by adding at the end thereof the following new section: "SEC. 3453 Existing contracts.

"(a) Tax payable by vendee: If (1) any person has, prior to the effective date of Part V of Title V of the Revenue Act of 1941, made a bona fide contract for the sale on or after such date, of any article with respect to the sale of which a tax is imposed by that act or an existing rate of tax is increased by that act, and (2) such contract does not permit the adding to the amount to be paid under such contract of the whole of such tax or increased rate of tax, then (unless the contract prohibits such addition) the vendee shall, in lieu of the vendor, pay so much of the tax as is not so permitted to be added to the contract price.

"(b) Tax paid to vendor: Taxes payable by the vendee shall be paid to the vendor at the time the sale is consummated, and shall be collected and paid to the United States by the vendor in the same manner as provided in section 3467. In case of failure or refusal by the vendee to pay such taxes to the vendor, the vendor shall report the facts to the Commissioner, who shall cause collection of such taxes to be made from the vendee."

(c) Unexposed motion picture films: Section 3443 (a) (3) (A) of the Internal Revenue Code (relating to credits or refunds of tax to manufacturer) is amended by inserting at the end thereof the following new clause:

"(v) in the case of unexposed motion picture films, used or resold for use in the making of news reel motion picture films."

Mr. GEORGE. Mr. President, in substance that provision is now in the Internal Revenue Code, but the principle is applied only to sales made prior to 1932. This amendment is solely for the purpose of protecting the vendor where the vendor has a bona fide existing contract with the vendee which does not permit him to add the tax.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

The next amendment was, in section 554, under the heading "Transportation of persons, etc.", on page 103, in line 8, after "(f)", to strike out "governmental exemption" and insert "exemptions"; and at the beginning of line 9, to insert "(1) governmental exemption."

The amendment was agreed to.

The next amendment was, on page 103, after line 13, to insert:

(2) Exemption of members of military and naval service: The tax imposed by this section shall not apply to the payment for transportation or facilities furnished under special tariffs providing for fares of not more than 1¼ cents per mile applicable to round-trip tickets sold to personnel of the United States Army, Navy, Marine Corps, and Coast Guard traveling in uniform of the United States at their own expense when on official leave, furlough, or pass, including authorized cadets and midshipmen, issued on presentation of properly executed certificate.

Mr. GEORGE. Mr. President, this amendment is intended to apply only to the members of the armed forces, the Army, Navy, Marine Corps, and Coast Guard, traveling in uniform and is to bring them into the accepted class under the transportation tax.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

The next amendment was, in section 555, under the heading "Coin-operated amusement and gaming devices," on page 105, at the beginning of line 1, to strike out "tax of $25 per year in respect of such device, and shall pay an additional special tax of $25 per year for each additional such device so maintained or the use of which is so permitted" and insert:

tax as follows:

"(1) $10 per year in the case of a device defined in clause (1) of subsection (b);

"(2) $200 per year, in the case of a device defined in clause (2) of subsection (b); and

"(3) $10 or $200, as the case may be, for each additional device so maintained or the use of which is so permitted.

Mr. GEORGE. Mr. President, the junior Senator from Nevada [Mr. BUNKER] has indicated that he desires to offer an amendment to this section. Therefore I ask that it be passed over for the day so that he may prepare an amendment.

The PRESIDING OFFICER. Without objection, the amendment will be passed over.

The next amendment was, in section 556, under the heading "Bowling alleys, etc.", on page 106, at the beginning of line 17, to strike out "$15" and insert "$10."

The amendment was agreed to.

The next amendment was, to strike out all of pages 107 and 108, as follows:

SEC. 557. Outdoor advertising.

Subchapter A of chapter 27 of the Internal Revenue Code is amended by adding at the end thereof the following new part:

"PART XI—OUTDOOR ADVERTISING

"SEC. 3269. Tax on outdoor advertising.

"(a) Tax: Every person who engages in business as a lessor of billboards for outdoor advertising shall pay with respect to each billboard maintained or controlled by him for use in such business a special tax at the following rates:

"Tax classification

"For each billboard having an advertising space area of:	*Per annum*
"(1) Not more than 100 square feet	$1.00
"(2) More than 100 and not more than 200 square feet	2.00
"(3) More than 200 and not more than 300 square feet	3.00
"(4) More than 300 and not more than 400 square feet	5.00
"(5) More than 400 and not more than 600 square feet	8.00
"(6) More than 600 square feet	11.00

"(b) Additional billboards: Where a person has paid the special tax with respect to each of a number of billboards of the same tax classification and thereafter discontinues the maintenance or control of one or more, and also assumes the maintenance or control of additional billboards of the same tax classification, he shall pay special tax only with respect to so many of such additional billboards as exceed the number with respect to which he has already paid special tax.

"(c) Definitions: As used in this section—

"(1) The term 'billboard' means any outdoor structure or device primarily designed for the display of advertising matter, and includes so-called sign space on the exterior of a building the use of which is controlled by a person engaged in business as lessor of billboards for outdoor advertising.

"(2) The term 'lessor' means any person who maintains or controls the use of billboards and, for compensation, displays advertising matter thereon for another person or permits the display of advertising matter thereon by another person.

"(d) Penalties: Any person liable for the special tax under this section with respect to any billboard maintained or controlled by him who fails to pay such tax, besides being liable for the payment of the tax, shall be fined not more than $50 for each offense.

"(e) Other laws applicable: All administrative and penalty provisions of subchapters A, B, and C of chapter 11, insofar as applicable, shall apply to the special tax imposed by subsection (a) and to the persons upon whom imposed.

"(f) Effective date of tax: With respect to the year ending June 30, 1942, no tax shall be payable under this part for any period prior to the effective date of part V of title V of the Revenue Act of 1941."

Mr. GEORGE. Mr. President, this is the so-called billboard tax, which I think everyone understands. We have certainly had enough correspondence about it. The committee thought it was a rather trivial sort of tax. Actually it would produce almost no revenue.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

Mr. DANAHER. Mr. President, I would say to the Senator from Georgia that at the close of today's session I will take up with him the matter of a proposed amendment on page 109, line 11, to strike out the words "Motor vehicles—$5." I should like very much to go over the matter in full with the chairman of our committee, and I want him now to have notice of my intention.

The PRESIDING OFFICER. That will be in order when amendments other than committee amendments are considered.

Mr. GEORGE. That will be in order when we reach it.

Mr. DANAHER. I simply desire to give notice of my intention in regard to the matter.

The next amendment was, in the item relating to tax on use of motor vehicles and boats, on page 110, line 17, after the word "used", to strike out "exclusively" and insert "chiefly", and in line 20, after the word "seamen", to insert a comma and "or boats used by the Sea Scouts department of the Boy Scouts of America chiefly for training Scouts in seamanship."

Mr. GEORGE. That speaks for itself; exemption of tax on boats used chiefly in trade and used by Sea Scouts.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

The next amendment was, on page 113, after line 18, to insert:

PART VI—PROCESSING TAX ON CERTAIN OILS

SEC. 561. Payment of proceeds of processing tax to Guam and American Samoa.

(a) Payment to possessions: Chapter 21 of the Internal Revenue Code (relating to processing tax on oils) is amended by adding at the end thereof the following new section:

"SEC. 2483. All taxes collected under this chapter with respect to coconut oil wholly of the production of Guam or American Samoa or produced from materials wholly of the growth or production of Guam or American Samoa, shall be held as separate funds and paid to the Treasury of Guam or American Samoa, respectively. No part of the money from such funds shall be used, directly or indirectly, to pay a subsidy to the producers or processors of copra, coconut oil, or allied products, except that this sentence shall not be construed as prohibiting the use of such money, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, for the acquisition or construction of facilities for the better curing of copra or for bona fide loans to copra producers of Guam or American Samoa."

(b) Effective date of amendment: The amendment made by this section shall be applicable only with respect to taxes collected after the date of enactment of this act.

Mr. GEORGE. Mr. President, the amendment simply would do in the case of Guam and American Samoa what already has been done by the Congress in the case of the Philippines.

The amendment was agreed to.

The next amendment was, on page 114, after line 17, to strike out:

TITLE VI—RADIO BROADCASTING AND NETWORK TAX

SEC. 601. Tax on radio broadcasting stations and networks.

Subtitle B of the Internal Revenue Code is amended by inserting after chapter 6 the following new chapter:

"CHAPTER 6A

"SEC. 1220. Tax on radio broadcasting stations and networks.

"(a) Rate: For each calendar year beginning after December 31, 1941, there shall be imposed upon every person with respect to operating a radio broadcasting station or engaging in network broadcasting for any part of such year, an excise tax computed as follows:

"(1) If the net time sales exceed $100,000 and do not exceed $500,000, an amount equal to 5 percent of the net time sales, or an amount equal to the net time sales in excess of $100,000, whichever is the lesser.

"(2) If the net time sales exceed $500,000 and do not exceed $1,000,000, an amount equal to 10 percent of the net time sales, or an amount equal to $25,000 plus the amount of the net time sales in excess of $500,000, whichever is the lesser.

"(3) If the net time sales exceed $1,000,000, an amount equal to 15 percent of the net time sales, or an amount equal to $100.000 plus the amount of the net time sales in excess of $1,000,000, whichever is the lesser.

"(b) Definitions: For the purposes of this section—

"(1) 'Network broadcasting' means the making of arrangements with persons operating radio broadcasting stations for the simultaneous broadcast of an identical program by two or more connected stations and the distribution of programs by wire or radio to such persons.

"(2) 'Time sales' means the gross amount received or accrued from the sale of broadcast time. Where the sale is for a consideration other than money the gross amount considered to be received or accrued shall be the seller's published card rate for broadcast time. Where the sale is for a consideration, less a commission to an advertising agency (whether such sale is made to such agency or its principal) the amount of such commission (not in excess of 15 percent of such consideration) shall be excluded in determining the gross amount received or accrued with respect to such sale.

"(3) 'Net time sales' means time sales minus the amounts paid or incurred for broadcast time to other persons operating radio stations or engaged in network broadcasting.

"SEC. 1221. Returns.

"(a) Requirement: Every person liable for tax under section 1220 shall make a return under oath. Such return shall contain such information and be made in such manner as the Commissioner with the approval of the Secretary may by regulations prescribe.

"(b) Time for filing:

"(1) General rule: Such return shall be made with 2 months after the close of the year with respect to which such tax is imposed.

"(2) Extension of time: The Commissioner may extend the time for making the returns, under such rules and regulations as he may prescribe with the approval of the Secretary, but no such extension shall be for more than 60 days.

"(c) Place for filing: The return shall be made to the collector for the district in which is located the principal place of business of the taxpayer, or, if it has no principal place of business in the United States, then to the collector at Baltimore, Md.

"SEC. 1222. Other laws applicable.

"All provisions of law (including penalties) applicable in respect of the taxes imposed by chapter 6 shall, insofar as not inconsistent with this chapter, be applicable in respect of the tax imposed by this chapter."

Mr. GEORGE. That is the so-called radio-broadcasting tax which the committee, upon consideration, thought unwise to impose, and therefore recommended that it be stricken out.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

The next amendment was, on page 118, after line 2, to insert:

TITLE VI—NONESSENTIAL FEDERAL EXPENDITURES

SEC. 601. Nonessential Federal expenditures.

(a) There is hereby established a committee to investigate nonessential Federal expenditures (hereinafter referred to as the "committee"), to be composed of (1) three members of the Senate Committee on Finance and three members of the Senate Committee on Appropriations, to be appointed by the President of the Senate; (2) three members of the House Committee on Ways and Means and three members of the House Committee on Appropriations, to be appointed by the Speaker of the House of Representatives; and (3) the Secretary of the Treasury, and the Director of the Bureau of the Budget. A vacancy in the committee shall not affect the power of the remaining members to execute the functions of the committee, and shall be filled in the same manner as the original selection. A majority of the committee shall constitute a quorum, and the powers conferred upon them by this section may be exercised by a majority vote.

(b) It shall be the duty of the committee to make a full and complete study and investigation of all expenditures of the Federal Government with a view to recommending the elimination or reduction of all such expenditures deemed by the committee to be nonessential. The committee shall report to the President and to the Congress the results of its study, together with its recommendations, at the earliest practicable date.

(c) The committee, or any duly authorized subcommittee thereof, is authorized to hold such hearings, to sit and act at such times and places, to employ such experts and such clerical and other assistants, to require by subpena or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, to take such testimony, and to make such expenditures, as it deems advisable. The provisions of sections 102 to 104, inclusive, of the Revised Statutes shall apply in case of any failure of any witness to comply with any subpena, or to testify when summoned under the authority of this section.

(d) The committee is authorized to utilize the services, information, facilities, and personnel of the departments and agencies of the Government.

(e) There is hereby authorized to be appropriated the sum of $10,000, or so much thereof as may be necessary, to carry out the provisions of this section.

(f) All authority conferred by this section shall terminate upon the submission of the committee's final report.

SEC. 602. Section 1303 of the Revenue Act of 1918, as amended, is amended by striking out "President of the Senate" wherever it appears therein and inserting in lieu thereof "President pro tempore of the Senate."

Mr. ADAMS. Mr. President, I have one suggestion to make in reference to the amendment. It seems to me that on line 7 the word "nonessential" should go out. In other words, the investigation should be of all Federal expenditures, and not merely of nonessential ones. Because at the bottom of the page the amendment provides that the committee shall recommend the elimination of expenditures deemed to be nonessential. It seems to me that in order to find out what expenditures are nonessential we shall have to investigate many expenditures which are not nonessential. Therefore I suggest that the word "nonessential" go out. I discussed the matter with the Senator from Virginia, and the Senator from Virginia is agreeable to that elimination. Therefore I move, Mr. President, that the word "nonessential" be stricken out.

The PRESIDING OFFICER. The question is on the motion of the Senator from Colorado [Mr. ADAMS] to amend the committee amendment by striking out the word "nonessential" on page 118, line 7.

The motion was agreed to.

Mr. GEORGE. The question is on agreeing to the amendment as amended; is it not?

The PRESIDING OFFICER. The question is on agreeing to the committee amendment as amended.

The amendment as amended was agreed to.

The next amendment was, at the top of page 120, to insert:

TITLE VI—CREDIT AGAINST FEDERAL UNEMPLOYMENT TAXES

SEC. 701. Credit against Federal unemployment taxes.

(a) Allowance of credit against tax for 1936, 1937, and 1938: Against the tax imposed by section 901 of the Social Security Act for the calendar year 1936, 1937, or 1938, any taxpayer shall be allowed credit (if credit is not allowable under sec. 902 of such act) for the amount of contributions paid by him into an unemployment fund under a State law—

(1) Before the sixtieth day after the date of the enactment of this act, if such credit is claimed before the expiration of 6 months after such date of enactment;

(2) Without regard to the date of payment, with respect to wages paid after September 19, 1939;

(3) Without regard to the date of payment, if the assets of the taxpayer are, at any time during the 59-day period following such date of enactment, or were at any time during the period August 11, 1939, to October 8, 1939, inclusive, or the period October 9, 1940, to December 6, 1940, inclusive, in the custody or control of a receiver, trustee, or other fiduciary appointed by, or under the control of, a court of competent jurisdiction.

The provisions of the Social Security Act in force prior to February 11, 1939 (except the provision limiting the credit to amounts paid before the date of filing returns), shall apply to allowance of credit under this subsection; except that the amount of credit against the tax for the calendar year 1936, 1937, or 1938, for contributions paid after December 6, 1940, shall not (unless the credit is allowable on account of par. (2) or (3)) exceed 90 percent of the amount which would have been allowable as credit on account of such contributions had they been paid before the last day upon which the taxpayer was required under section 905 of such act to file a return for such year. The terms used in this subsection shall have the same meaning as when used in title IX of such act prior to February 11, 1939. The total credit allowable against the tax imposed by section 901 of such act for the calendar year 1936, 1937, or 1938 shall not exceed 90 percent of such tax.

(b) Allowance of credit against tax for 1939 and 1940: Against the tax imposed by the Federal Unemployment Tax Act for the calendar year 1939 or 1940, any taxpayer shall be allowed credit (if credit is not allowable under sec. 1601 of such act) for the amount of contributions paid by him into an unemployment fund under a State law—

(1) Before the sixtieth day after the date of the enactment of this act, if such credit is claimed before the expiration of 6 months after such date of enactment;

(2) Without regard to the date of payment, if the assets of the taxpayer are, at any time during the 59-day period following such date of enactment, or were at any time during the period from the last day upon which the taxpayer was required under section 1604 of the Federal Unemployment Tax Act to file a return of the tax against which credit is claimed to June 30 next following such last day, inclusive, or (in the case of credit against the tax for the calendar year 1939) the period October 9, 1940, to December 6, 1940, inclusive, in the custody or control of a receiver, trustee, or other fiduciary appointed by, or under the control of, a court of competent jurisdiction.

The provisions of the Federal Unemployment Tax Act (except sec. 1601 (a) (3)), including such provisions as modified by section 902 (e) of the Social Security Act amendments of 1939, shall apply to allowance of credit under this subsection. The amount of such credit against the tax for the calendar year 1939 or 1940, in the case of contributions paid after the last day upon which the taxpayer was required under section 1604 of the Federal Unemployment Tax Act to file a return for such year, shall not (unless the credit is allowable on account of par. (2)) exceed 90 percent of the amount which would have been allowable as credit on account of such contributions had they been paid on or before such last day. The terms used in this subsection shall have the same meaning as when used in the Federal Unemployment Tax Act. The total credit allowable against the tax imposed by such act for the calendar year 1939 or 1940 shall not exceed 90 percent of such tax.

(c) Refund: Refund, credit, or abatement of the tax (including penalty and interest assessed or collected with respect thereto, if any), based on any credit allowable under subsection (a) or (b) may be made in accordance with the provisions of law applicable in the case of erroneous or illegal assessment or collection of the tax (including statutes of limitations). No interest shall be allowed or paid on the amount of any such credit or refund. On and after the date of the enactment of this act no refund, credit, or abatement shall be allowed based on any credit allowable under section 810 of the Revenue Act of 1938, section 902 (a) of the Social Security Act amendments of 1939, or section 701 of the Second Revenue Act of 1940.

Mr. DANAHER. Mr. President, I respectfully ask the chairman of the committee to allow title VI, as recommended on page 120 and following pages, to go over. I should like very much to take up with him a matter that I think will seriously affect title VI.

The PRESIDING OFFICER. That should be title VII.

Mr. DANAHER. I see it is marked "title VI"; and I have so designated it by reference to the pages in order to identify it.

Mr. BYRD. Mr. President, will the Senator from Georgia yield?

Mr. GEORGE. Yes; I yield.

Mr. BYRD. I ask unanimous consent to have inserted in the body of the RECORD at this point a resolution passed by the Senate Finance Committee which is in a sense a companion measure to section 601 which has just been adopted. I ask unanimous consent to have the resolution inserted in the RECORD at this point as a matter of information. The resolution was adopted last night.

The PRESIDING OFFICER. Without objection, it is so ordered.

The resolution is as follows:

Resolved by the Committee on Finance of the Senate, acting under the authority vested in it by section 20 of the Budget and Accounting Act of 1921, That the Director of the Bureau of the Budget be requested to transmit to the chairman of said committee, as promptly as possible, but not later than the 15th day of October 1941, such detailed revisions of the estimates of expenditures for the fiscal year ending June 30, 1942, as he would make if he had been instructed to prepare three Budget estimates for such fiscal year in which the total annual expenditures for nondefense purposes were less by $1,000,000,000, by $1,500,000,000, and by $2,000,000,000, respectively, than the total amounts appropriated for such nondefense purposes for such fiscal year, and to transmit to the chairman of said committee, together with such revisions of estimates, complete data showing all items which were classified or considered as being nondefense expenditures in the Budget estimates for the fiscal year ending June 30, 1940, and which, in the Budget estimates of expenditures for the fiscal year ending June 30, 1941, or for the current fiscal year, have been included, directly or indirectly, as defense expenditures, and are now classified or considered as being defense expenditures.

Resolved further, That the chairman of said committee be directed to transmit to the chairman of the Committee on Appropriations of the Senate and to the chairman of the Committee to Investigate Nonessential Federal Expenditures established by the Revenue Act of 1941 copies of the revisions of estimates and other data transmitted by the Director of the Bureau of the Budget pursuant to this resolution.

Resolved further, That the chairman of the Committee on Finance of the Senate be directed to transmit a copy of this resolution, immediately upon its adoption, to the Director of the Bureau of the Budget.

Adopted by the Committee on Finance of the Senate August 28, 1941.

———, *Chairman.*

Mr. BYRD. Mr. President, I ask that the clerk read the resolution.

Mr. WALSH. Mr. President, this resolution is merely for the information of the Senate. Such a proposal does not have to be ratified by the Senate.

Mr. BYRD. It is not to be ratified by the Senate. The information is furnished by the Finance Committee in accordance with section 20 of the Budget and Accounting Act of 1921, which provides that—

The Bureau shall at the request of any committee of either House of Congress having jurisdiction over revenue or appropriations, furnish the committee such aid and information as it may request.

Mr. WALSH. So the request is simply to have the resolution made a matter of record, for the information of the Senate?

Mr. BYRD. Yes. I think the resolution should be read for the information of the Senate.

The Chief Clerk read the resolution.

Mr. DANAHER. Mr. President, I renew my request of our distinguished chairman of the committee and ask that action on title VII be deferred until I have had a chance to take up with him the matter of the proposed amendment.

Mr. GEORGE. That is on page 120?

Mr. DANAHER. It is called title VI in the bill, but that is an error. It appears on pages 120, 121, 122, and 123, and it applies to the Social Security Act.

Mr. GEORGE. That is quite agreeable, Mr. President.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. DANAHER. I thank the Senator from Georgia.

Mr. GEORGE. That completes the committee amendments, Mr. President, except for those passed over. I should like to offer one further amendment at this time: On page 26, line 9, to strike out the word "such" and insert "the."

The amendment was agreed to.

Mr. GEORGE. Mr. President, I would not want any misunderstanding. I think Senators who are interested in the community-property amendment understood that it would go over until tomorrow morning.

The PRESIDING OFFICER. An order has been made to that effect.

Mr. GEORGE. I am not sure about the other amendments, whether they simply went over or whether they went over until tomorrow.

Mr. BARKLEY. I thought that amendments which went over went over until we went through the bill for uncontested amendments, and then we would go back and take up the amendments which had been passed over.

Mr. GEORGE. That is quite agreeable to me.

Mr. McNARY. Mr. President, I may have conveyed the intimation to some Members of the Senate that amendments which went over until the following day were passed over to afford an opportunity to read and study the bill. I think when a request is made that an amendment be passed over, it means that it be passed over until tomorrow.

Mr. BARKLEY. That is true when the calendar is called, but ordinarily when we go through a bill, and take up the amendments, when an amendment goes over it, it goes over until we finish the uncontested amendments. Whatever the Senator from Georgia wants to do is agreeable to me, but it is a little early to quit work today unless we can agree to meet at an earlier hour tomorrow.

Mr. McNARY. I wish to say, in fairness to Members of the Senate, that if the amendments go over until tomorrow, I would have no complaint if the Senate should meet earlier in the day.

Mr. GEORGE. Mr. President, if the majority and minority leaders agree to meet at 11 o'clock tomorrow in lieu of 12 o'clock, I think it would be better to recess until tomorrow, that is, so far as the tax bill is concerned.

Mr. BARKLEY. Would the Senator from Georgia, for the advice of the Senate, indicate what amendments have gone over, so that Members may understand what will be under consideration tomorrow?

Mr. GEORGE. I do not know that I could, without the assistance of the clerk, to give the information. The amendment lowering the personal exemption and the community property income amendment would be first in order.

Mr. BARKLEY. Then, do we understand that the amendments which have gone over will be taken up in the order in which they appear in the bill?

Mr. GEORGE. Yes; I think so.

Mr. BARKLEY. And that the first one will be the amendment lowering exemptions?

Mr. GEORGE. That is the first amendment in order; yes.

Mr. LA FOLLETTE. Mr. President, I ask unanimous consent that I may be permitted to submit an amendment to the tax bill, and have it printed, although I am not able to offer it at this moment.

The PRESIDING OFFICER. Without objection, the amendment will be printed and lie on the table.

EXECUTIVE SESSION

Mr. BARKLEY. With the understanding that when I move a recess I shall move that the Senate take a recess until 11 o'clock tomorrow morning, in order that Senators may familiarize themselves with the bill and the remaining amendments which have gone over, I now move that the Senate proceed to the consideration of executive business.

The motion was agreed to; and the Senate proceeded to the consideration of executive business.

EXECUTIVE REPORTS OF COMMITTEES

The following favorable reports of nominations were submitted:

By Mr. HAYDEN, from the Committee on Post Offices and Post Roads:

Several postmasters.

THE ARMY—FREDERICK HENRY OSBORN

The PRESIDING OFFICER (Mr. SMATHERS in the chair). If there be no further reports of committees, the clerk will state the nomination which has been passed over.

The legislative clerk read the nomination of Frederick Henry Osborn to be brigadier general in the Officers' Reserve Corps.

The PRESIDING OFFICER. The question is, Will the Senate advise and consent to this nomination? [Putting the question.]

The nomination was confirmed.

NAVY DEPARTMENT

The PRESIDING OFFICER. The clerk will state the other nominations on the calendar.

The legislative clerk read the nomination of Artemus L. Gates, of New York, to be Assistant Secretary of the Navy for Aeronautics.

Mr. WALSH. Mr. President, this is rather an important nomination. The office of Assistant Secretary of the Navy for Aeronautics has been vacant for some time. I move the confirmation of the nomination.

The PRESIDING OFFICER. Without objection, the nomination is confirmed.

COLLECTOR OF CUSTOMS

The legislative clerk read the nomination of Joseph H. Lyons, of Mobile, Ala., to be collector of customs, with headquarters at Mobile, Ala.

The PRESIDING OFFICER. Without objection, the nomination is confirmed.

POSTMASTERS

The legislative clerk proceeded to read the nominations of sundry postmasters.

Mr. WALSH. I ask unanimous consent that the postmaster nominations be confirmed en bloc.

The PRESIDING OFFICER. Without objection, the nominations of postmasters are confirmed en bloc.

MARINE CORPS

The legislative clerk proceeded to read sundry nominations for promotions in the Marine Corps.

Mr. WALSH. I ask unanimous consent that the nominations in the Marine Corps be confirmed en bloc.

The PRESIDING OFFICER. Without objection, the nominations in the Marine Corps are confirmed en bloc.

That completes the calendar.

Mr. BARKLEY. I ask unanimous consent that the President be notified immediately of the confirmation of the nominations acted on by the Senate today.

The PRESIDING OFFICER. Without objection, the President will be immediately notified.

RECESS

Mr. BARKLEY. As in legislative session, I move that the Senate take a recess until 11 o'clock a. m. tomorrow.

The motion was agreed to; and (at 3 o'clock and 3 minutes p. m.) the Senate took a recess until tomorrow, Thursday, September 4, 1941, at 11 o'clock a. m.

CONFIRMATIONS

Executive nominations confirmed by the Senate September 3 (legislative day of September 2), 1941:

APPOINTMENT IN THE OFFICERS' RESERVE CORPS, IN THE ARMY OF THE UNITED STATES

Frederick Henry Osborn to be a brigadier general in the Officers' Reserve Corps, in the Army of the United States.

NAVY DEPARTMENT

Artemus L. Gates to be Assistant Secretary of the Navy for Aeronautics.

COLLECTOR OF CUSTOM

Joseph H. Lyons to be collector of customs for customs collection district No. 19, with headquarters at Mobile, Ala.

POSTMASTERS

OREGON

Goldie V. Smith, Brookings.
James T. Brophy, Hines.
Helen Peetz, Turner.

APPOINTMENTS AND PROMOTIONS IN THE NAVY

MARINE CORPS

To be major

William R. Williams

To be first lieutenant

Douglas E. Keeler

To be second lieutenants

Harold C. Howard — Robert W. Glickert
William E. Davis — George L. Hays
Samuel W. Smith, Jr. — Herbert T. Elliott, Jr.
Edward G. Walker, Jr. — Roland E. Carey

To be chief quartermaster clerk

Percy H. Uhlinger

To be chief pay clerk

Ernest M. Jones

Rabbi Perry E. Nussbaum, Temple Emanu-El, Wichita, Kans.
Rabbi Jacob J. Ogle, Congregation B'nai Jeshurun, Lincoln, Nebr.
Rabbi Levi A. Olan, Temple Emanuel, Worcester, Mass.
Rabbi Harry B. Pastor, Anshai Emeth Temple, Peoria, Ill.
Rabbi David Philipson, Congregation Bene Israel, Cincinnati, Ohio.
Rabbi W. Gunther Plaut, Washington Boulevard Temple, Chicago, Ill.
Rabbi Herman I. Pollack, Temple Israel, Blytheville, Ark.
Rabbi Max Raisin, Barnert Memorial Temple, Paterson, N. J.
Rabbi Sidney L. Regner, Reform Congregation Oheb Sholom, Reading, Pa.
Rabbi Karl Richter, Temple Israel, Springfield, Mo.
Rabbi William Rosenau, Oheb Shalom, Baltimore, Md.
Rabbi Harold I. Saperstein, Temple Emanu-El, Lynbrook, Long Island, N. Y.
Rabbi Sidney Wolf, Temple Beth El, Corpus Christi, Tex.
Rabbi Samuel Wolk, Congregation B'nai B'rith, Wilkes-Barre, Pa.
Rabbi Jacob K. Shankman, Temple Israel, New Rochelle, N. Y.
Rabbi Nathaniel S. Share, Gates of Prayer, New Orleans, La.
Rabbi Meyer H. Simon, Temple Israel, Lafayette, Ind.
Rabbi Edgar E. Siskin, Congregation Mishkan Israel, New Haven, Conn.
Rabbi Samuel D. Soskin, Temple Beth El, Fort Worth, Tex.
Rabbi Adolph Spiegel, Long Branch, N. J.
Rabbi Ulrick B. Steuer, Temple Beth Sholom, Fredericksburg, Va.
Rabbi Samuel Teitelbaum, United Hebrew Congregation, Fort Smith, Ark.
Rabbi Samuel Thurman, United Hebrew Temple, University City, St. Louis, Mo.
Rabbi Leo E. Turitz, Temple Beth Zion, Bradford, Pa.
Rabbi Harvey E. Wessel, Temple Beth El, Tyler, Tex.
Rabbi David L. Zielonka, Congregation Schaarai Zedek, Tampa, Fla.
Rabbi Maurice L. Zigmond, Temple Israel, Waterbury, Conn.

LETTER FROM THE PRESIDENT TO HOMER MAT ADAMS

[Mr. BARKLEY asked and obtained leave to have printed in the RECORD a letter from the President addressed to Homer Mat Adams under date of August 18, 1941, which appears in the Appendix.]

ST. LAWRENCE SEAWAY—LETTER OF CHARLES MORRIS MILLS

[Mr. BRIDGES asked and obtained leave to have printed in the RECORD a letter relating to the St. Lawrence seaway, written by Charles Morris Mills, of Jaffrey, N. H., and printed in the New York Herald Tribune of August 17, 1941, which appears in the Appendix.]

ADDRESS BY I. M. ORNBURN ON AMERICA AND THE UNION LABEL

[Mr. DAVIS asked and obtained leave to have printed in the RECORD a radio address on the subject America and the Union Label, delivered by I. M. Ornburn, secretary-treasurer, union-label trades department, American Federation of Labor, on September 1, 1941, which appears in the Appendix.]

ARTICLE BY FRANK R. KENT ON RETRENCHING NONESSENTIAL SPENDING

[Mr. BYRD asked and obtained leave to have printed in the RECORD an article by Frank R. Kent, published in the Baltimore Sun of September 3, on the necessity of retrenching nonessential spending, which appears in the Appendix.]

ARTICLE BY WILLIAM ALLEN WHITE ON UNITED STATES FOREIGN POLICY

[Mr. CONNALLY asked and obtained leave to have printed in the RECORD an article by William Allen White on the subject United States Foreign Policy Held Peaceful, published in the Washington Star of August 31, 1941, which appears in the Appendix.]

ARTICLE BY WILLIAM ALLEN WHITE ON THE ROAD TO PEACE

[Mr. CONNALLY asked and obtained leave to have printed in the RECORD an article by William Allen White entitled "The Road to Peace," published in the Emporia (Kans.) Gazette of August 21, 1941, which appears in the Appendix.]

MESSAGE FROM THE HOUSE

A message from the House of Representatives, by Mr. Calloway, one of its reading clerks, communicated to the Senate the intelligence of the death of Hon. EDWARD T. TAYLOR, late a Representative from the State of Colorado, and transmitted the resolutions of the House thereon.

REVENUE ACT OF 1941

The Senate resumed the consideration of the bill (H. R. 5417) to provide revenue, and for other purposes.

Mr. DANAHER. Mr. President, yesterday, without having had a chance to examine the minority views filed by the Senator from Wisconsin [Mr. LA FOLLETTE], I had given notice to the chairman of the committee of my intention to file an amendment repealing the proposed use tax on motor vehicles. I wish to say now to the Senator from Wisconsin that I have since read the minority views which he filed, and I absolutely concur in the section in which he deals with the subject, and shall be most happy to collaborate with him in any amendment which he proposes with reference to that particular subject.

The VICE PRESIDENT. The clerk will state the first committee amendment passed over.

The CHIEF CLERK. The first amendment passed over is, on page 22, after line 2, to insert:

SEC. 111. Personal exemption.

(a) Section 25 (b) (1) of the Internal Revenue Code is amended to read as follows:

"(1) Personal exemption: In the case of a single person or a married person not living with husband or wife, a personal exemption of $750; or in the case of the head of a family or a married person living with husband or wife, a personal exemption of $1,500. A husband and wife living together shall receive but one personal exemption. The amount of such personal exemption shall be $1,500. If such husband and wife make separate returns, the personal exemption may be taken by either or divided between them, except that if one spouse makes a return under Supplement T, the personal exemption of the other spouse shall be $750."

(b) Section 214 of the Internal Revenue Code (relating to personal exemption of nonresident alien individuals) is amended by striking out "$800" and inserting in lieu thereof "$750."

(c) Section 251 (f) of the Internal Revenue Code (relating to personal exemption of citizens entitled to benefits of section 251) is amended by striking out "$800" and inserting in lieu thereof "$750."

Mr. LA FOLLETTE. Mr. President, I rise to oppose the committee amendment providing for an additional reduction in the personal income-tax exemptions.

It may be remembered by some Senators that for a number of years, in connection with past tax bills, I have offered amendments proposing reductions in the personal exemptions in the income-tax laws. The amendments I have offered in past years provided for a reduction in the then-existing exemptions for married persons from $2,500 to $2,000 and for single persons from $1,000 to $800. Those provisions were incorporated in the revenue bill of last year by the House Ways and Means Committee and confirmed by the Senate.

In connection with the general subject of personal exemptions, I hope the Senate will bear in mind that as we go down into the low-income group we reach a point where we begin, by the process of taxation, to reduce the standard of living of the persons affected. As an example of what I have in mind, I wish to refer to the minimum food requirements as estimated by the Department of Agriculture.

In a circular, No. 295, entitled "Diets at Four Levels of Nutritive Content and Cost," the necessary expenditures for food for a restricted diet, for emergency use only, are estimated at $350. This estimate is based on the 1929 price level and is intended to supply a family consisting of two moderately active adults and three children, aged 3, 5, and 13 years, respectively. I wish to emphasize that it is a minimum emergency diet. The minimum food cost for an adequate diet for the same family is estimated at $500 annually, a moderate food cost for an adequate diet at $800 annually, and a liberal diet at $950 annually.

The average family with a $1,500 income spends approximately 35 percent of its total income for food; the average family with an income of $10,000 and over spends 18 percent of total income for food. In dollars, the average is about $525 per family in the $1,500-income class. Obviously, therefore, comparing $525 with $500, the average family with an income of $1,500 annually is living only barely above the minimum standard set up by the United States Department of Agriculture.

According to the report, the emergency diet to which I have referred contains an irreducible minimum of foods, and is not considered adequate for use over an indefinite period.

I have an additional objection to the further reduction of the personal income tax exemptions because of the enormous increase which has occurred in recent years in the Federal tax structure of what are commonly termed regressive types of taxation—manufacturers' excise taxes and retail sales taxes. That portion of the Federal tax structure has been constantly increased in recent years. That must be borne in mind in considering the total impact of Federal taxes upon those in the lower income groups.

Already, due to the increase in excise taxes and sales taxes, which are ultimately paid by the consumer, and which have no relation to ability to pay, we have dipped into the pockets of the low-income groups in this country by asking them to

contribute additional sums of money to the support of the activities of the Federal Government, including national defense.

I should like to refer further, in this connection, to the studies of the National Resources Committee on average consumer expenditures at the $1,500 income level, to which point the committee now proposes to go in the taxation of the head of a family. According to this study, as previously stated, 35 percent of the income at this level is spent for food, or, $525; 19 percent is spent for housing, or $285; 11 percent is spent for household operations, or $165; 10 percent is spent for clothing, or $150; 6 percent is spent for medical care, or $90; education, recreation, and other miscellaneous expenses aggregate 19 percent, or $285.

I have a further objection to the proposed reduction in the personal income tax exemptions under the pending bill. That objection is based upon my firm conviction that the existing tax structure is inequitable, and that the proposed law would make it more so. That was the position taken by the head of the Treasury Department, Secretary Morgenthau, when he appeared before the Finance Committee. He did not recommend or advocate a reduction in the personal income tax exemption unless and until certain inequities, which he conceived to be existing in the present structure and in the pending bill, had been corrected. I desire to quote briefly from his statement on this point. He said:

We ought not to accept such sacrifices—

Referring to the sacrifices of those in the lower income-tax group if the exemptions were reduced—

We ought not to accept such sacrifices, even though willing sacrifices, from millions of people with low incomes on whom the burden of other types of taxes falls most heavily, unless we reach in other places ability to pay which is escaping its fair share of taxes. Among these are the following:

The excess-profits tax exempts profits of even the most prosperous corporation, except to the extent that such profits are in excess of its average profits for the years 1936-39. Surely Congress will not wish to impose additional taxes on millions more of our low-income group unless it also imposes the excess-profits tax on exempt excess profits of such corporations.

Families pay lower Federal income taxes when both husband and wife receive incomes than when the same total amount of income is received by only one of them. This is a discrimination of which many wealthy people have taken advantage by large gifts of income-producing property between husband and wife.

The Secretary further stated:

For years the concerns engaged in extracting certain of our natural resources, notably oil, have been granted far greater allowances for depletion than can be justified on any reasonable basis of tax equity. If the income tax is to be extended to lower incomes, this privilege of tax escape should simultaneously be removed.

A few months ago the Congress eliminated the tax-exemption privilege from new issues of Federal securities. The purchasers of new State and local securities still enjoy this exemption. The exemption was inequitable and expensive even in normal times. It cannot be borne longer in a time like this, and especially if we are to increase the direct tax burdens of persons with smaller incomes.

In its suggestion to the Ways and Means Committee, the Treasury recommended substantial increases in estate and gift taxes and lower exemptions. In part, this recommendation was followed; but, in my opinion, the estate and gift taxes should reach more estates and provide more revenue if we are going to tax smaller incomes.

He also stated, in his suggestion to the Ways and Means Committee:

The Treasury recommended substantial increases in estate and gift taxes, and lower exemptions. In part its recommendation was followed, but in my opinion the estate and gift taxes should reach more estates and provide more revenue if we are going to tax smaller incomes.

Mr. President, I could not make a better statement of my objection to the reduction of income-tax exemptions proposed by the pending bill than was made by the Secretary of the Treasury. Certainly we are not justified, it seems to me, in reaching down into that group whose incomes, as every study shows, are already inadequate to provide a decent standard of living to protect the health of parents and children and to afford opportunities for the education of the children until we have had the courage and have taken the time to revise the existing tax structure in such a manner as to prevent some of the inequities, some of the extraordinary loopholes because of which corporations and persons in the higher income-tax groups enjoy benefits.

I recognize that the tax structure has become so complicated and so complex that it is difficult, if not impossible, for the average citizen to understand it. Nevertheless, I say that in the critical emergency which confronts this country it should be a part of the objective of Congress to make certain that the taxpayers who are called upon to make these extraordinary sacrifices feel that they are doing so under a tax structure which places the burden of taxation, insofar as possible, on the sound principle of ability to pay, and which levies the taxes in such manner that there can be no claim made by an humble citizen, as well as by the Secretary of the Treasury, that the structure is inequitable, and that extraordinary and inordinate sacrifices are demanded of those in the lower income groups, while corporations and others in the higher income-tax brackets are not required to pay their fair share.

Mr. President, I recognize that the particular amendment now pending is estimated to raise a very substantial amount of revenue. It is estimated that the reduction in the personal income-tax exemptions will increase the yield above the House bill by $303,700,000, which is a very substantial amount of revenue. The parliamentary situation is such that I cannot specifically offer an alternative to this proposed reduction in the personal-income exemption, but I make the statement that I shall offer an amendment to the estate-tax provision embodying the schedules recommended by the Treasury Department to the Ways and Means Committee, which will in the aggregate produce an additional $202,000,000. At least it can be said, Mr. President, that such an effort to raise taxes will be predicated upon the principle of ability to pay. That would leave a difference of $101,000,000, which would be taken from the total yield of this bill, but, in my opinion, it would be a small price to pay in order that we may at least assure those in the lower income groups that we are not going to approach them with a tax-pincers movement, so to speak, while hitting them hard by the increases in the manufacturers' excise taxes and in the sales taxes. They pay those taxes. Let no one have any delusions on that point. The manufacturers' excise tax is passed on to the ultimate consumer. The testimony given before the committee is replete with such evidence. The direct sales taxes imposed by this bill obviously will be paid by the ultimate consumer.

Mr. President, I repeat that such taxes are regressive in their nature. They are not predicated upon any principle of ability to pay. They violate that principle for the obvious reason that persons in the lower income groups must spend a larger percentage of their incomes to maintain their families and to support life itself, while those in the higher income groups pay out a lesser percentage of their total incomes for the commodities on which the manufacturers' excise and retail sales taxes are levied.

Mr. TAFT. Mr. President, will the Senator yield?

Mr. LA FOLLETTE. I yield.

Mr. TAFT. Merely for the purpose of the record, let me state that of the $303,000,000 which is to be raised by lowering the exemptions, only $50,000,000 will come from the new taxpayers who will come under the law.

Mr. LA FOLLETTE. Yes. I was coming to that point.

Mr. TAFT. It is also true, is it not, that, whereas a new taxpayer pays the lowest rate, the lowering of the exemption increases the tax of every income taxpayer, and increases the wealthy man's tax more in dollars and cents, at least, because it increases the amount he has to pay in the higher brackets.

Mr. LA FOLLETTE. Yes.

Mr. TAFT. So it cannot be said that, like the taxes on automobiles, it is an absolutely even tax. The effect of the lowering of the exemption is to impose a graduated tax somewhat in accordance with ability to pay.

Mr. LA FOLLETTE. Yes, Mr. President; but it is not very much in accordance with the ability to pay. I now quote from the majority report:

It has been estimated by the Treasury Department that this reduction in the personal exemptions will require the filing of 4,911,000 new income-tax returns and will increase the number of income taxpayers by 2,256,000. Under the House bill, it is estimated that 17,107,000 individual income-tax returns would have been filed, of which 10,925,000 would have been taxable. Under the Finance Committee bill it is estimated that 22,108,000 individual income-tax returns will be filed, of which 13,181,000 will be taxable.

I quote further from the report:

The decrease in the personal exemptions has the effect of increasing the tax throughout the bracket structure. This increase—

I emphasize this—

is substantial in the lower brackets. The following table sets cut the additional burden on single persons and on married per-

sons without dependents caused solely by the reduced exemptions.

A married man with no dependents, having a net income of $2,000, will pay out an additional $40.70 as a result of reducing the tax exemption; a person with a net income of $8,000 will pay out $104.50 additional; and a person with $5,000,000 of net income will pay out $351 additional.

So it becomes apparent, Mr. President, that the lowering of the exemptions will not have the effect of imposing additional graduated taxes as would be the case if we were to readjust the income-tax structure itself. Pulling down the exemption will have the effect of putting income in the upper brackets in a higher surtax bracket, but it is not graduated sufficiently, nor does it fall in any equitable manner. I want that to be made perfectly clear.

Mr. President, it is easy enough to say, "In the light of the emergency why should not a married man with no dependents be asked to pay $40.70 more into the Federal Treasury?" That appears on the surface as a plausible argument, but it is my contention that when we reach down with the tax mechanism into the incomes which are below the existing exemptions, we lower the standard of living. In addition, the proposal to lower the exemptions does not take into account the taxes which are already being paid by persons in the lower income group.

I quote statistics from Monograph No. 3 submitted to the Temporary National Economic Committee, entitled "Who Pays the Taxes?" The monograph shows that persons receiving incomes under $500 pay out 21.9 percent of their income in taxes. That includes all taxes, Federal, State, and local, based on the tax structure of 1939. In the case of persons receiving incomes from $500 to $1,000, 18 percent of the income is being paid out in taxes. In the case of persons receiving incomes from $3,000 to $5,000 the figure is 17.6 percent. Not until the very highest brackets are reached does the percentage of income paid in taxes exceed the 21.9 percentage which is paid in the lowest bracket.

So, it cannot be said that we are simply asking for $40.70 from a married man with no dependents. We are asking that amount on top of all the Federal, State, and local taxes which he is now paying, a burden which is more than $356 on a $2,000 income, according to the T. N. E. C. report.

Mr. President, I do not wish longer to delay the Senate. I should like to point out, however, that the present taxes on an income of a thousand dollars received by a single person amounts to $4.40. The Finance Committee bill brings that tax up to $21, or an increase of $16.60, a percentage increase of 337 percent.

The present tax on a $3,000 income of a married person is $30.80. The Finance Committee bill would raise that tax to $138. This is an increase of $107.20, or 348 percent. The increase in rates accounts for $57.70, or 187 percent, and the lowered exemption accounts for $49.50, or 161 percent.

I should like now to quote very briefly from what I said on June 19, 1940, on the floor of the Senate:

> As the chief advocate in this body in past years for broadening the income-tax base, I must now state that I consider it is a gross inequity to the low-income taxpayers to ask them to increase their taxes, and, at the same time fail to ask the corporations, which are going to be vastly enriched by the necessity for national rearmament, to carry their fair share of the load, according to their ability.

It is my contention, as previously stated, that the bill intensifies and aggravates the inequities in our present tax structure. As the tax load increases, the impact of an inequitable structure becomes all the more acute from the standpoint of the functioning of our economy and from the standpoint of the willingness of the taxpayers to carry their share of the load.

I should like also to quote from an article in Fortune magazine for August 1941 by Hon. Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System:

> During the emergency the excess-profits tax should, in my opinion, be the keystone of a well-balanced tax program. Increased taxes, however, should not be imposed on the great numbers of small business concerns and on millions of individual taxpayers until they have been given every reasonable assurance that the funds they are being asked to provide will not go to swell the profits of wealthy individuals and corporations.

One further thought, and I shall be through. Let it be remembered, Mr. President, that the persons in the lower income groups will feel first and most severely the impact of the increase in the cost of living. As I have previously stated, when we go down into the very low-income groups we are taxing persons who are already paying substantial sums in the form of excise taxes, sales taxes, and State and local taxes; and we are taxing them at the expense of their standard of living.

We all know that prices have risen in recent months as a result of the impact of the defense program. Those in the lower income groups suffer most, because a decrease in their standard of living means a decrease in health, housing standards, and medical care.

Mr. President, I am sure that every Senator was shocked, as was I, to find when the draft went into effect that the medical officers of the Army were forced to reject because of physical defects 40 percent of the selectees called up for examination. In the richest country in the world I think that fact should give pause to legislators who have the power to wield the sharp ax of taxation.

I hope the committee amendment will be rejected, and that the Senate will then give favorable consideration to an estate-tax amendment I shall offer which would restore all but $101,000,000 of the amount which would be lost by the rejection of this committee amendment.

Mr. HILL. Mr. President, will the Senator yield?

Mr. LA FOLLETTE. I yield.

Mr. HILL. I wonder if the Senator proposes to offer an amendment dealing with the excess-profits taxes?

Mr. LA FOLLETTE. As the Senator knows, I have made that fight several times.

Mr. HILL. I well remember the very valiant fights the Senator has made in the past.

Mr. LA FOLLETTE. If the Senator has taken time to glance over the minority views filed by me, he will see that I feel that the present excess-profits tax is wholly inadequate; that it does not do the job that the excess-profits tax did during the last war; and that the tax structure will be inequitable and unjust so long as we do not remedy that condition. However, I have the feeling—and I will be perfectly frank with the Senator—that in view of the pressure upon us to pass this bill, and the fact that the House Ways and Means Committee failed to act upon the Treasury recommendations for alteration of the excess-profits-tax structure, in all probability my efforts would be futile at this time. I intend to await a more opportune moment when I hope there will be greater opportunity for deliberative consideration.

Mr. HILL. Does the Senator think there will be a more opportune moment at any time in the near future?

Mr. LA FOLLETTE. The able chairman of the Ways and Means Committee has already announced that we are to have another tax bill in 1942. So I feel certain that there will be another opportunity. In the meantime, we shall have additional experience under this bill, which I hope will then convince the majority of the Congress that we should thoroughly revise the excess-profits-tax structure.

Mr. WILEY. Mr. President, will my colleague yield for a question?

Mr. LA FOLLETTE. I am glad to yield.

Mr. WILEY. I was very much interested in the Senator's comments. As I recall, under the terms of the pending amendment, 4,000,000 new taxpayers would be brought into the picture if the amendment should become law. I should like to ask the Senator about how much money those 4,000,000 would pay into the Treasury?

Mr. LA FOLLETTE. If my recollection serves me correctly, the Treasury estimate is $50,000,000.

Mr. BARKLEY. Mr. President, will the Senator yield?

Mr. LA FOLLETTE. I yield.

Mr. BARKLEY. The Senator does not include in his statement the entire amount which would be raised?

Mr. LA FOLLETTE. I have stated several times that $303,700,000 is the total amount which would be raised, but my colleague the Senator from Wisconsin [Mr. WILEY] asked me directly about the new taxpayers. My recollection is that about $50,000,000 would be paid by them.

Mr. WILEY. I remember the statement that an additional amount of approximately $300,000,000 would be imposed if the exemptions were reduced with respect to the remainder of the taxpayers. Is that correct?

Mr. LA FOLLETTE. Yes.

Mr. WILEY. How many do they constitute in number, not counting the 4,000,000 new taxpayers?

Mr. LA FOLLETTE. I again quote from the majority report:

> It has been estimated by the Treasury Department that this reduction in the personal exemptions will require the filing of 4,911,000 new income-tax returns and will increase the number of income taxpayers by 2,256,000.

The point is, of course, that by reducing the exemptions we may require persons to file returns, but not all those who file returns will pay any taxes, any more than all those who now file returns pay taxes. In other words, under any given rate of exemptions always more persons file returns than are required to pay.

Mr. WILEY. Well, of course——

Mr. LA FOLLETTE. Let me complete the thought, and perhaps it will answer the Senator's question in full.

Under the House bill it is estimated that 17,107,000 individual income-tax returns would have to be filed, of which 10,925,000 would have been taxable. Under the Finance Committee bill it is estimated that 22,108,000 individual income-tax returns will be filed, of which 13,181,000 will be taxable.

Mr. WILEY. That gives me the information I sought. In other words, if the pending amendment becomes law, there will be 22,000,000 persons who will have to file, but there will be 13,000,000 who will have to pay, which includes approximately 2,250,000 new payers.

Mr. LA FOLLETTE. That is correct.

Mr. WILEY. In other words, that leaves about 10,000,000 of the old taxpayers to pay the additional amount. That is approximately correct, is it not?

Mr. LA FOLLETTE. Roughly speaking, yes.

Mr. WILEY. In listening to the Senator's argument, which was very illuminating, it occurred to me that this matter is like a two-edged sword. If we do not adopt this amendment, Senators will be incidentally reducing the amount of tax that they will have to pay, too. Is that not correct?

Mr. LA FOLLETTE. Yes; and assuming that a Senator's net income without any deduction is $10,000, and that he is a married man with no dependents, the reduction of the exemption would have the effect of increasing his tax by $126.50.

Mr. WILEY. I arrived at substantially the same figures my colleague has given me. In other words, if we do not adopt this amendment we shall be saving ourselves $126 and some cents. On the other hand, if we do adopt it we shall provide that a man who has an income of $1,500 and is single will pay $63, whereas if he is married he will pay $1, according to this schedule. A single man with an income of $1,600 will pay $72, and a married man having the same income will pay only $6.

It seems to me, in view of those circumstances, that we are liable to be criticized if we do take this action, and we are liable to be criticized if we do not. It may be said that we have a personal interest in the matter.

Mr. LA FOLLETTE. Mr. President, of course, Senators drawing a salary, as well as Representatives, cannot enact legislation affecting the individual income-tax structure without having some effect upon their own taxes. My contention is that it is unjustifiable to go down into the lower-income groups in order to obtain additional revenue. If the Senator wishes to increase the taxes on persons whose incomes are above the present exemptions, he can accomplish that result by increasing the surtax rates. Furthermore, let me say that the House has already taken action which has the effect of increasing the surtaxes; so the Senator will not be left out of this bill when he comes to make out his income-tax return. He will find a very substantial increase in his income tax, due to the action of the House, which has been confirmed by the Senate.

Mr. DAVIS. Mr. President, will the Senator yield?

Mr. LA FOLLETTE. I yield.

Mr. DAVIS. Does the Senator recall the amount that it would cost to collect taxes in accordance with the schedule shown on page 7 on incomes from $750 to $2,975?

Mr. LA FOLLETTE. No, Mr. President; I have no estimate of the cost. As I remember, it was a substantial or a considerable sum, but I have not those figures at hand.

Mr. GEORGE. Mr. President——

Mr. DAVIS. As I recall now, I think the Treasury said that the cost of collection would be greater than the amount collected.

Mr. LA FOLLETTE. No; I do not think that statement was made under any circumstances. There would be some slight increase in the cost of collection.

Mr. GEORGE. Mr. President, the Treasury estimates that by the use of the short form, which would embrace every one of the new taxpayers brought in, there would not be any substantial increase in the actual cost of collection.

Mr. DAVIS. I think the Secretary told us that it would cost some $16,000,000.

Mr. LA FOLLETTE. I do not remember any such figure as that. Some figure was given prior to the time the short form was adopted; but, as the Senator from Georgia has pointed out, there is no question that all the new income-tax payers to be brought in by this amendment will use the short form, since they are so low in the income scale that they would get no advantage by trying to calculate their income-tax liability under any other procedure. It is true that the short form may cost some $16,000,000, but we can tell better about that after we have had experience under it.

Mr. ADAMS. Mr. President, will the Senator yield?

Mr. LA FOLLETTE. I shall be glad to yield to the Senator from Colorado.

Mr. ADAMS. My inquiry is with respect to the change in the existing law which would be made by the amendment. I suppose I should know that.

Mr. LA FOLLETTE. The existing law was changed last year, and the exemption for a married person was reduced from $2,500 to $2,000. The committee bill proposes to reduce that exemption to $1,500. The single man's exemption was reduced last year from $1,000 to $800, and the committee proposes to reduce it to $750.

Mr. ADAMS. Then the result is that we are increasing the tax on the married man ten times as much as we are increasing the tax on the single man. In other words, we are increasing the taxable income of the married man, or his family, $500. We are increasing the taxable income of a single man $50. Why should the extra tax load be put upon the man with a family rather than upon the single man?

Mr. LA FOLLETTE. Mr. President, there has been a larger differential in the exemption for a married person as against a single person. The exemption, as I stated before, was $2,500 for a married person and $1,000 for a single person, which was a differential of $1,500. When the exemptions were reduced last year, the married man's exemption was reduced from $2,500 to $2,000, and the single person's exemption was reduced from $1,000 to $800. The differential now is $1,200.

Mr. ADAMS. Yes; but we have the practical result that those upon whom rests the burden of family life have imposed upon them a $500 additional tax burden, while the single man who has no such burden has his tax burden increased only $50.

Mr. LA FOLLETTE. That is true; but, as I see the matter, we are preserving the differential which has existed between the married person and the single person.

Mr. ADAMS. But does the Senator feel that an increase of $500 in one case is relative to an increase of $50 in the other? It is in the proportion of 10 to 1.

Mr. LA FOLLETTE. I did not say it was relative. All I said was that it preserves in a measure the differential which has always existed between single persons and married persons.

Mr. ADAMS. I think it rather a discriminatory measure.

Mr. LA FOLLETTE. As the Senator knows, it is my feeling that we are not justified at this time, in view of the situation and the tax burden now carried, in making any further reductions in this respect.

Mr. President, I ask for the yeas and nays on this amendment.

Mr. GEORGE. We want the yeas and nays.

The yeas and nays were ordered.

Mr. CLARK of Missouri. Mr. President——

Mr. GEORGE. Does the Senator from Missouri desire to discuss the matter?

Mr. CLARK of Missouri. Yes; I wish to discuss it.

Mr. GEORGE. I should like to have the privilege of making a few concluding remarks.

Mr. CLARK of Missouri. Mr. President, I intend to vote for the pending bill, although I do so with very great reluctance, because it is certainly as unscientific, haphazard and patchwork a measure as it would have been possible to devise in this time of great national

crisis. I shall vote for it not because it is a good bill, for I know that it is an exceedingly bad bill, but I shall vote for it merely and only because of the fact that, with the tremendous expenditures which the Congress has already made or authorized, it is absolutely necessary, in my opinion, at this time to raise revenue if any attempt whatever is to be made to preserve national solvency by fair means of foul.

Ever since I have been a Member of the United States Senate, now some eight and a half years, and, to my knowledge, long before that, in fact, almost ever since the inception of the present income-tax theory of providing revenue, every tax bill which has come before the Congress of the United States—and sometimes, as we know, they have come as often as twice a year—has been accompanied by a solemn pledge on the part of the party in control of the Congress and the administration, sometimes one party, sometimes the other party, sometimes with one party in control of one body and the other party in control of the other body, that before the next tax bill is brought in there will be a conscientious, careful recasting of the whole tax structure to wipe out the inequalities and the patchwork which have developed over a period of something more than 20 years. Yet by the time the next tax bill comes in to be considered, by the time the increase in the national expenditures makes a new tax bill necessary, invariably nothing has been done toward an honest attempt to recast the tax system of the United States along scientific lines.

Mr. President, of course, I am familiar, as I suppose every other Member of the Senate is familiar, with the famous remark of a long-forgotten British Chancelor of the Exchequer who said that there is no such thing as the science of taxation, that the whole principle involved in taxation is to get the greatest amount of feathers with the least amount of squawking.

Nevertheless, Mr. President, be that as it may, it would seem to be perfectly practicable, particularly at a time when we are, I started to say "entering upon," but I correct it to say that we are already well into the most stupendous program of expenditures the world has ever seen or conceived of, for the Congress of the United States and the administrative agencies of the United States courageously to face the fact and the prospect and put in the tremendous amount of toil and make a tremendous amount of legislative sacrifice, possibly of our legislative lives, to take the American people into their confidence and recast the tax structure on what might somewhat at least as closely as possible approximate both a scientific and equitable basis.

No one likes to pay taxes. All my life I have waited to meet somebody who really likes to pay taxes; but I never have encountered such an individual yet. We have been 4 weeks in the hearings in the Finance Committee of the United States Senate, and, almost without exception, every witness who came before the committee said, "We realize the tremendous expenditures the United States will have to make and the tremendous expenditures which have been made, and that very heavy sacrifices are necessary, and we are in favor of that; we are in full support of the Government's program; but there is one little item in this bill to which we should like to call your attention." Then they proceed to ask to be relieved of paying certain taxes imposed by the bill itself. I assume that that will always be true in the case of any tax bill whatever.

But, Mr. President, in this bill—I believe I am correct in saying it is the largest tax bill ever proposed to be passed by the Congress in wartime or in peacetime—no attempt whatever has been made to do equity or to reconstruct the fundamental tax structure equitably and on a scientific basis. All the effort that has been made in this bill is simply to pick out some particular industries or particular parts of an industry and slap a tax on them, frequently without any consideration whatever of the effect on the particular industry or of the competitive situation of that industry or portion of an industry, or to pick out some particular section of the income-tax brackets or the inheritance or estate tax brackets and put a tax on them without any consideration of the whole.

Mr. President, let me say that I am not questioning the integrity or the good faith or the patriotism or the earnest effort of either the Treasury officials or the Internal Revenue officials, or the committees of the House of Representatives, or the Senate, or the Members of the House of Representatives, or the Senate. It is a system that has persisted through all the years since the present income-tax and heritance-tax system were set up; but I do say, in view of the stupendous expenses we have incurred and the stupendous expenses that are to be incurred, according to the announced program in the immediate future, it is time for the Government of the United States to stop and recast its whole tax structure instead of pursuing the policy of hit or miss haphazard tax measures, measures which affect all Americans sometimes to the point of denying them their daily bread. No member of the Finance Committee will stand here and deny, no member of the Ways and Means Committee of the House of Representatives will stand up anywhere and deny that this bill is a pure patchwork, and that in many respects it is a very bad piece of patchwork.

Mr. President, so far as I am concerned, so far as I recall, without exception, I think that on every vote which has been taken since I have been a Member of the Senate on the question of broadening the tax base, lowering the exemptions, I have supported such proposals both in the Finance Committee and in the Senate, the proposals usually offered by the senior Senator from Wisconsin [Mr. La Follette]. I believe, without exception, I have supported those proposals. I have supported them for two reasons, Mr. President. In the first place, I think that the burden of taxation ought to be distributed as widely as possible, and, in the second place, I believe that the inclusion of as many taxpayers as possible who knew that they were paying taxes instead of being "soaked" by general taxes, is the very best way, and probably the only way, that I could ever conceive by which the riot of extravagance in which this country has engaged now for a good many years could be brought to a close. I have uniformly voted for those proposals; but I agree with the Senator from Wisconsin that when we cut the exemptions to the bone in the income-tax brackets of the tax bill of last year we went just as far as we ought to go in reducing the exemptions until we tapped to the fullest degree other sources of revenue higher up in the tax brackets—other sources of revenue from other forms of taxation—and certainly in this emergency until we have taxed the sources of revenue which are going to profit enormously from the tremendous defense expenditures of the United States, and which are not being reached by the excess-profits provisions of this bill.

As far as I am concerned, I am willing to wipe out all exemptions; I am willing to tax everybody who has a dollar; but I am not willing to abandon the principle of taxation according to ability to pay, and tax the dollar of the poor devil barely able to hold body and soul together, while people who are waxing fat out of the defense expenditures of the United States are not taxed to an adequate degree.

Therefore, I shall vote against this committee amendment. I think it is unjustifiable to tax a man or a woman making $62.50 a month—fifteen dollars a week—barely able to hold body and soul together, until all the other sources of taxation, particularly the incomes of those making enormous profits out of the defense expenditures, have been brought into line.

Mr. President, of course I know that a tax of $1.50 a year, I believe it is, on a man or woman making $62.50 a month or $15 a week will not be tremendously burdensome, possibly, although $1.50 is a very large sum to some of them. They have a hard time eating for a month, clothing themselves, and finding a place to live. That will not be such a tremendous burden, and it will not raise any particularly great amount of revenue. We shall get only $40,000,000 out of the new taxpayers, stupendous as that sum used to be, but negligible now, when we occasionally spend $7,000,000,000 here without even reading the bill. But $40,000,000 will be raised out of the new taxpayers. Something like $275,000,000 will be raised from the increase of the surtaxes in the lower brackets. It may not mean more than a dollar and a half a year to a man earning $62.50 a month; but to a man who has been earning $2,000, a married man with two children or three children or four children, it means adding $500 a year to his taxable income at the top of the surtax, and that is going to mean a great deal of additional sacrifice, and to my mind unjustifiable sacrifice, not only in that new class of taxpayers brought under the bill but in the class of small taxpayers already within the operation of the internal-revenue system.

Mr. President, let me say just one word about amounts.

It was announced that it was the aim and objective of the Government, of the Treasury Department, of the Congress, to raise $3,500,000,000; and at the time that goal was set that was an entirely reasonable and explicable goal. That goal was based on Secretary Morgenthau's statement last spring in a conference down at the Treasury Department in which he proposed to congressional leaders that of these defense expenditures two-thirds should be raised by taxation and one-third by borrowing, and that was an entirely sound and reasonable proposition. To be sure, it was exactly the reverse of the scheme which was followed in the World War, when it was attempted to raise one-third by taxation and two-thirds by borrowing; but it was a scheme so sound in the interest of national solvency that nearly everybody in the United States except the official spenders was willing to agree to it. At that time that formula worked out to three and a half billion dollars; but before the bill could even be considered by the Ways and Means Committee of the House, let alone be reported to the House or passed by the House, the dislocation of the Budget by tremendously increased expenditures threw that formula completely out of kilter, and by the time the bill reached the Finance Committee of the Senate to have adhered to Secretary Morgenthau's formula would have meant raising by taxation between five and a half and six billion dollars. So nobody pays any attention to that formula any more; and therefore the objective of three and a half billion dollars became purely a fictitious, arbitrary objective that had no particular meaning in rhyme or reason.

The distinguished majority leader, the Senator from Kentucky [Mr. BARKLEY], came into the committee and got up another objective of his own. I do not know whether he had been in consultation with the Treasury Department or whom he had been in consultation with, and I do not care; but he came in and said he had set an objective of $4,000,000,000 which had no reference whatever to the original formula of the Treasury or the original objective announced by the Treasury.

In other words, the Senator from Kentucky was a good deal like a colored boy that I had rowing me across the Mississippi River at one time when I was going fishing. He said, "Mr. BENNETT, I wish I had $7. Gee, don't I just wish I had $7. I just wish I had $7." I said, "Brooks, what do you want $7 for? What would you do with $7 if you had it?" "Well, sir," he said, "I don't know." I said, "Why do you want $7?" "Well," he said, "I just think that's a nice sum to have." [Laughter.]

So all these objectives now have become purely arbitrary, unless we go back to the original formula of the Secretary of the Treasury and undertake to raise two-thirds of the prospective Budget by taxation; and, even if we do that, even if we could go back to the original formula of the Secretary of the Treasury and raise five and a half or six billion dollars, we are already on notice that that gain will be wiped out within the next week or so by another estimate of five or six billion dollars for another lease-lend bill.

Mr. BARKLEY. Mr. President——

Mr. CLARK of Missouri. I yield to the Senator from Kentucky.

Mr. BARKLEY. I merely wish to observe that the difference between the Senator's colored boy and me is that while he did not know what he could do with $7 if he had it, I know what we can do with the money we are going to raise by this tax bill.

Mr. CLARK of Missouri. Mr. President, I do not think the Senator does, because the program is liable to be changed before he takes his seat. [Laughter.]

Mr. BARKLEY. Whatever change is made, we know that the amount will be increased, and therefore we know that it will be needed.

While I am on my feet, I desire to say to the Senator that I did not arrive at the amount of $4,000,000,000 by consulting anybody.

Mr. CLARK of Missouri. I did not say the Senator did.

Mr. BARKLEY. The Senator had some doubt about whether I had consulted the Treasury.

Mr. CLARK of Missouri. I said I did not know whether the Senator had consulted anybody.

Mr. BARKLEY. I will tell the Senator—not that it is worth anything.

Mr. CLARK of Missouri. I myself think $4,000,000,000 is a nice sum. I agree with the Senator.

Mr. BARKLEY. Yes; it is quite a handy amount.

When the Secretary of the Treasury made his estimate, back in February or March, of two-thirds and one-third, and fixed $3,500,000,000 as the minimum amount to be raised in the new tax bill to carry out that formula—adding that, of course, to the taxes already being collected by the Treasury—it seemed that the raising of $3,500,000,000 could, with reasonable certainty, be expected to carry out that formula. In the meantime, the House Ways and Means Committee spent 2 or 3 months, as the Senator knows, working on the bill, and making an effort to raise the $3,500,000,000. While that was going on, the expenses increased. Additional requests were made beyond what we expected for defense work, and for lend-lease activities, and all of that.

Mr. CLARK of Missouri. That is precisely what I have been saying.

Mr. BARKLEY. So that to carry out the formula, if we wanted to carry it out, would have cost more than $3,500,000,000.

Mr. CLARK of Missouri. Between five and a half and six billion dollars, before the next lease-lend estimate.

Mr. BARKLEY. Yes. Soon after that estimate was made the Senator from Texas [Mr. CONNALLY], a member of the Committee on Finance, gave out a statement to the public that he thought the bill ought to be raised a billion dollars more.

Mr. CLARK of Missouri. The Senator from Texas is just coming into the Chamber now.

Mr. BARKLEY. I said in the committee, and I say now, that I agree with the Senator from Texas that the tax bill should raise a billion dollars more than was proposed to be raised in the bill as it passed the House.

When we got into the matter, we found the House struck out $350,000,000 when they eliminated the joint returns, and I thought we should make that up. I felt that as between the three and a half billions which the Secretary of the Treasury had asked for in March and the four and a half billions suggested by the Senator from Texas, four billion was a fair compromise, and was a reasonable goal. This bill does not raise that sum, but I still think that, in order not only to carry out any formula to the meticulous degree of having two-thirds paid for in cash and one-third in credit, we should try to raise approximately $4,000,000,000 in the pending bill. And that will not do the job; we might as well understand that we will have another tax bill here early next year.

Mr. CLARK of Missouri. Probably before the end of this year, will we not?

Mr. BARKLEY. We may have an administrative bill before the end of the year.

Mr. CLARK of Missouri. And probably two or more next year.

Mr. BARKLEY. I feel, and I have felt all along—and I feel it more and more—the more I think of it, that the people of the United States, the industries and the businesses and the individuals who are to pay this tax ultimately, should know as soon as possible what is expected of them, so that they may make their calculations accordingly. I know we can never arrive at the time when we will be able to say that there will be no more tax bills, but while we are writing a tax bill we should go as far as possible to make it as permanent as possible, so that the people would have at least a little while to operate under the existing taxes before we undertake to write another bill.

Mr. CLARK of Missouri. I agree entirely with what the Senator from Kentucky has said. Let me say that in my remarks about the objective of the $4,000,000,000 I had no thought whatever of criticising the Senator from Kentucky. My only purpose in mentioning the fact is to point out what the Senator from Kentucky himself has corroborated, that there is no rhyme or reason in any particular objective at the present moment, and to emphasize the fact that in view of the tremendous expenditures which are to be necessary, in view of the fact that there is to be another tax bill either this year or early next year, possibly two tax bills next year, in view of what the country does face, it does seem to me that the Congress and the other officials of the Government should sit down and make a scientific reconstitution of the whole tax system.

I defy anyone in this Chamber who is not a member of the Committee on Finance, or, in fact, anyone in this Chamber who is a member of the Committee on Finance, or anyone outside of this Chamber who is not a tax attorney, just to take this bill and run right through

it and tell what everything in it means. We cannot even consider one of these bills without the aid of about 45 or 50 experts, experts from the Treasury Department, experts from the Internal Revenue, experts from the Joint Tax Committee. None of us can take one of these bills and tell what it means, because it is a patchwork system.

Mr. BARKLEY. Mr. President, will the Senator yield?

Mr. CLARK of Missouri. Every tax bill which comes before us amends this or that, and we cannot understand it without going back and reading about 15 statutes and 45 Supreme Court decisions. I yield to the Senator from Kentucky.

Mr. BARKLEY. I agree with what the Senator says about that, and when we passed the last tax bill, in 1940, I expressed the hope on this floor that long before now we might sit down and undertake to revise the entire tax system scientifically.

Mr. CLARK of Missouri. That hope has been expressed by the responsible leadership, not only ever since I have been a Member of the Senate but long before I came to the Senate, every time a tax bill would come in; but nothing was done about it. I understand the Finance Committee of the Senate and the Senate leadership cannot originate a tax bill unless the Treasury and the House, and the House Ways and Means Committee more particularly, cooperate in the first place; that the Senate, and more particularly the Senate Committee on Finance, never have a chance to pass on a tax bill. What I am pointing out is the hazard, the very great danger, in a time of tremendous national stress, such as the present, when the very solvency of the Government is very much in the balance, of persisting in this system of haphazard tax revision.

Mr. BARKLEY. If the Senator will yield, I do not wish to delay the Senator longer, except to make one observation. Of course, the rewriting of the tax laws is an almost insuperable task.

Mr. CLARK of Missouri. I understand we cannot do it while we are immediately under the gun raising specific taxes. That is the only reason why I will vote for the pending bill, that I recognize that we must take this or we may get nothing. But we are not going to revise the system unless we start in and do it.

Mr. BARKLEY. Undoubtedly, under the Constitution, the House Ways and Means Committee and the House must take the initiative in undertaking to rewrite the tax laws. It is almost like recodifying the laws of the United States.

Mr. CLARK of Missouri. I am familiar with that fact; but it should be done.

Mr. BARKLEY. It has been a patchwork since 1913.

Mr. CLARK of Missouri. That is what I stated a moment ago.

Mr. BARKLEY. The first income-tax law was written largely by our present Secretary of State, Mr. Cordell Hull, as a member of the Ways and Means Committee of the House. It reminds us of the old adage that when it rains you cannot fix your roof, and when it stops raining, you do not need to fix it.

Mr. CLARK of Missouri. It is raining now, and it is going to continue to rain, probably, all during the lives of ourselves and our children and our grandchildren.

Mr. BARKLEY. What I mean is that when we have a gun pointed at us——

Mr. CLARK of Missouri. We are told they are on every side, that we have a number of guns pointed at us.

Mr. BARKLEY. I am serious about this; I am not trying to be facetious.

Mr. CLARK of Missouri. Nor am I. It is a very tragic matter.

Mr. BARKLEY. When we need a certain amount of money, it is difficult to sit down and revise all the tax laws, which is something that ought to be done.

Mr. CLARK of Missouri. If a man's house is afire there is no more important work to which he can devote himself than in putting out the fire, and it seems to me that is the situation of the United States at this time. I know what the situation is, and I think the American people should be made to realize what the situation is. We are faced with a situation in which the most drastic taxes are going to be imposed on everyone. But they should be as equitable as possible. At the gait at which we are going, we will have spent, at the end of the next fiscal year, probably a hundred billion dollars in the defense program and in what we have given away and are proposing to give away to various countries around over the world, added to the national debt of $48,000,000,000. That will mean that it will be necessary to raise by taxation in this country $4,000,000,000 a year forever, at least $4,000,000,000 a year forever, simply to pay the interest on the national debt, without laying up a cent for amortization or sinking fund, or without taking into consideration to any degree whatever the ordinary expenses of the Government, which certainly are not likely to diminish in the lifetime of any of us. We might as well realize that not one single tax that is being imposed in this bill, under the guise of it being an emergency measure, or being a temporary measure, will be taken off in the lifetime of any of us here, or in the lifetime of our children or our grandchildren.

If we are to have another tax bill before the end of this year, or certainly at the beginning of next year, if we are to continue a program of expenditures which may logically result in a capital levy, or the most drastic taxes the world has ever seen, it seems to me that the sooner we look the situation in the face and let the American people look the situation in the face, and enter upon the construction of a sound tax system—realizing that any tax system is burdensome, but as sound and equitable a tax system as is possible—the better the country will be off and the better we will be off, even though some of us may be beaten for our participation in the construction of such a tax system.

In the meantime, while I shall vote for this patchwork measure, I am not willing to vote for the proposed reduction in income-tax exemptions, which could only have the effect of penalizing those of our people least able to pay, until some effort has been made to tax the people better able to pay.

Mr. GEORGE. Mr. President, I do not wish to delay the Senate very long, but I do desire to speak very earnestly. If there are Members of the Senate who wish to write a constructive tax law, this is the beginning right here and now on the present vote. Make no mistake about that. Until we have brought in as large a number of taxpayers as we reasonably can with fairness to all recognized principles of taxation, we have no basis on which we ever will be able to write an equitable, scientific tax measure. The real acid test of the sincerity of every Senator is to lower the exemptions, and let a larger number of the American people pay taxes, because a good tax bill will never be written here by theorists, nor will a good tax bill be written in the Treasury Department by theorists. A good tax bill will be written by the American people when they become taxpayers and understand the problem they have to meet. Senators are doing the American people no service, but a definite and distinct disservice, when they refuse to lower the tax base, as the pending committee amendment recommends be done.

Mr. President, it is easy enough to criticize in generalities and say that this is a patchwork bill. I have never defended it as being a perfect bill. I have never seen a perfect tax bill. But we must take one step at a time. We cannot go all the way at one jump, particularly in building up a tax bill under which the American people can live, and under which the business of the American people can be carried on, under which, if it is desired to put it the other way, they can make the money to pay the taxes.

It is repeated in the public press and on the floor of the Senate that this is a mere patchwork, that it is a hodgepodge, and that it does not have anything to commend itself to the Senate. Bear in mind that we can take but one step at a time. Let us look at the measure. When we come to this question—and everything else has been discussed except the question before the Senate—when we come to this question, let us look at the exemptions given in some other countries. Great Britain, of course, is at war. She is fighting desperately with her back to the wall. But she allows single persons an exemption of $325. We propose to allow single persons an exemption of $750. England allows married persons an exemption of $560. Is this measure a hodgepodge? What about the British system? Senators are talking about one point. Why do they not confine themselves to it, and why not be sincere about it? Perhaps there is something wrong with the excess-profits tax, perhaps there is something wrong with the individual income tax, something wrong with the other kinds of taxes, something wrong with the world, and with the whole program of the administration. All that may be granted, but Senators are talking on this point.

Here are the British, with their long experience. They are today giving a single man an exemption of only $325, and a married person an exemption of

only $560. They allow only $200 exemption for each dependent child, and we allow $400. We allow $1,500 exemption for married persons and $750 exemption for single persons.

Has our neighbor, Canada, a hodgepodge law? A little while later Senators will hear the Canadian excess-profits system extolled, they will hear the Canadian excise system extolled, they will hear the Canadian income-tax system extolled as being a fairly good tax system. What are the exemptions in Canada? Exactly what we are proposing here. They are $750 for a single person and $1,500 for a married person or the head of a family, and $400 for each child or dependent. Are the American people less able to pay and are they faced by less necessity for meeting this issue than the Canadian people?

Mr. President, I have said we are trying to take one step at a time. We are taking more than one step in this bill in the right direction. The Senate Finance Committee has done the best it can do to provide some means and some machinery for lowering the ordinary expenses of the Government—a thing absolutely vital. We are trying to bring upon the tax rolls some additional taxpayers not for the purpose of annoying them but in fairness to the income earners of the country. There can never be anything in the nature of a general sales tax intelligently levied, nothing in the nature of a general withholding tax intelligently imposed, nothing in the nature of a Federal service tax based upon primary profits intelligently worked out until we have a more adequate study of the taxpayers of the United States, and we can get that only by lowering the exemptions.

Besides that, Mr. President, this proposal does no injustice to the American taxpayer. By lowering the exemptions, as is proposed, we will obtain revenue amounting to approximately $304,000,000, sorely needed, but of that amount only $49,000,000 will come from new taxpayers, and of the $49,000,000 only $10,000,000 will come from those who for the first time will file returns. Is anyone here striking at the foundations of the American standard of living? Is there anything in this proposal which justifies the generalization that this is a hodgepodge, when it is in line with the oldest income-tax system among nations whose experience has been almost like our own, or more nearly like our own, than that of any other nation?

Yesterday I tried to point out that the present exemption for a single or unmarried person is $800 and that we are lowering his exemption by only $50. What will he pay by reason of this lowered exemption? On a net income of from $750 to $775 he will pay $1 a year, a little less than one-quarter of a cent a day. On a net income from $775 to $800 he will pay $2 a year. There we arrive at the point of the exemption in the present law.

Mr. President, the distinguished Senator from Colorado [Mr. ADAMS] called attention to the disparity in the percentage of increase in the case of a married person, but there is no added tax by virtue of the lowering of the exemption until we get to a net income of $1,500. If the married person has one dependent he adds $400 to his exemption. If he has two dependents he adds another $400 to his exemption. If he has three dependents he adds $1,200 to his $1,500 exemption, making a total exemption of $2,700. From $1,500 to $1,525 he pays $1 tax. From $1,525 to $1,550 he pays $1 additional tax, or a total tax of $2, I should say; that is all he pays. From $1,550 to $1,575 he pays $3. Up to his present exemption of $2,000 he will pay a total tax of only $39. He would pay $39 on $2,000 of net income, on which he is liable for a tax.

I understand the Senator's difficulty. He feels that there has been a discrimination because we have reduced by $500 the exemption of the head of a family, who has a greater responsibility in theory, at least, whereas we have reduced the exemption of an unmarried or single person by only $50. That grows out of the fact that in the beginning we provided very liberal exemptions. Under the terms of the 1913 act, the first income-tax act after the passage of the amendment to the Constitution, as I recall we had exemptions of $3,000 for single persons, and $4,000 for married persons. In the midst of the World War those exemptions remained substantially in effect. Then there was a lowering of the exemptions to $1,000 and $2,000 for the respective categories. Last year we lowered the exemptions from $2,500 to $2,000 for married persons, and from $1,000 to $300 for unmarried persons.

Mr. ADAMS. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. ADAMS. My complaint is not as to the extent of the reduction, but as to the ratio, and the discrimination. When we had an exemption of $2,500 for married persons we had an exemption of $1,000 for single persons, or a ratio of 2½ to 1. When we reduced the exemptions to $2,000 for married persons and $800 for single persons the ratio was still 2½ to 1. Now it is proposed to lower the exemptions to $1,500 for married persons and $750 for single persons, or a ratio of 2 to 1.

If the original ratio was wrong, I have nothing to say. I think it was a correct ratio. I think that ratio should be maintained. If it were proposed still further to lower the exemptions and maintain the ratio, I should vote with the committee. In accordance with what I conceive to be the correct ratio, if we have an exemption of $750 for a single person we should have an exemption of $1,875, and not $1,500, for a married person. I know of no reason why we should increase the burden on the family to an extent five times greater than the extent to which we increase the burden on the single person. It is proposed to increase the burden on the family by 25 percent, and on the single person by only 6.3 percent.

Mr. GEORGE. Let me say to the Senator that there can be no certainty that we ever had an absolutely correct ratio, and there can be nothing sacred about the ratio.

Let me call the Senator's attention to the fact that the ratio has varied widely. From 1913 to 1916 a single person, or a married person not living with husband or wife, and not the head of a family, had an exemption of $3,000. The married person living with wife or husband, or who was the head of a family, had an exemption of $4,000.

From 1917 to 1920 the single person had an exemption of $1,000, and the married person had an exemption of $2,000, exactly the ratio to which we are returning under almost similar conditions.

From 1921 to 1924 the single person had an exemption of $1,000 and the married person an exemption of $2,500. Then we began to increase the ratio in favor of the married person. From 1925 to 1931 the single person had an exemption of $1,500, and the married person an exemption of $3,500.

So in a comparable period, from 1917 to 1920, when the demands upon government were heavy, as they now are, we had precisely the same ratio, the exemption being slightly higher both to the married person and to the single person. The ratio was exactly 2 to 1.

Mr. ADAMS. I have assumed that in recent years the Finance Committee has gained additional knowledge from experience, and that the ratios in the last two bills were more nearly satisfactory than the previous ratios. I do not yet understand why we should increase the burden on the family.

Mr. GEORGE. Let me put it plainly. It is because we think it is right.

Mr. ADAMS. Is it simply to obtain more money?

Mr. GEORGE. No; it is not simply to obtain more money. It is because we think it is about the right proportion. If the married man has children or dependents he is entitled to an additional exemption. The same thing is true of a single person with dependents.

Mr. ADAMS. There are some limitations. If a man does not have a wife, but is the head of a family, he must include one dependent in order to qualify as the head of a family.

Mr. GEORGE. That seems to be fair, because one dependent makes him the head of a family, and then he is brought into the same category as that of a married person.

Mr. ADAMS. I am merely pointing out that the action of the Finance Committee seems to be prejudicial to the man who has a family as distinguished from the individual who is free from that burden.

Mr. GEORGE. I have tried to point out to the Senator in all good faith that it seemed to the committee, and to those of us who had given study to the matter, that the ratio was about as nearly fair and equitable as we could make it.

Mr. ADAMS. If the Senator wants to reduce the exemption, I will go along with him, because I think the citizenry of the country should be made tax conscious. I think the citizenry should understand some of the consequences of their demands for expenditures, which meet a response in this body; but I feel that the action of the committee is a discrimination against those with family burdens, which is not justified by the facts.

Mr. KILGORE. Mr. President, will the Senator yield for a question?

Mr. GEORGE. I yield.

Mr. KILGORE. In his remarks I believe the Senator was reading from the table on page 7. The Senator used the expression, "tax on net income," while the language of the bill is "if his gross income" and so forth. I merely wish to straighten out the matter in my own mind.

Mr. GEORGE. Let me explain to the Senator that in the so-called short form of return an arbitrary allowance is made for the deduction which the Treasury has found from experience represents an average deduction for earners within those brackets. Therefore I referred to the net or taxable income. The table on page 7 is a so-called short form, which is available to and may be used by all taxpayers with incomes of $3,000 or less.

Mr. KILGORE. But the taxes listed in the table would be on gross income, and not on net income.

Mr. GEORGE. No; an allowance has been made.

Mr. KILGORE. The payments would be on gross income.

Mr. GEORGE. In the short form an allowance has been made for the average deduction. The Treasury Department compiled the table on that basis. It is actually based on net income.

Mr. KILGORE. Is the tax on net income?

Mr. GEORGE. Yes; the computation takes into consideration the average deduction.

Mr. KILGORE. If the taxpayer wanted to use his gross income as a basis, and did not want to bother with figuring net income, he could pay a lump sum according to the table.

Mr. GEORGE. Yes; he could pay a lump sum according to the table and be through with it.

Mr. KILGORE. Immediately following the table there is a provision that $400 may be deducted from the gross income for each dependent. According to the table, if a man had a gross income of $2,500, and one dependent in addition to his wife, he would pay a tax based on an income of $2,100.

Mr. GEORGE. The Senator is correct.

Mr. President, I have nothing further to say on this amendment. It is vital to the bill; and if we are to make any progress toward simplification, and if we are to make any progress toward creation of a system which will eliminate some of the objectionable features of the present one, this is a vital and necessary step, as necessary as bringing about economies in government.

Mr. BARKLEY. Mr. President, will the Senator yield for a suggestion?

Mr. GEORGE. I yield.

Mr. BARKLEY. Inasmuch as the question of complications involved in the writing of a tax bill has been discussed, I think the Senator will agree that many of the complications and misunderstandings and so-called patchwork results have grown out of administrative matters, as well as substantive taxation, and we are now in process of preparing an administrative bill which will be brought here very shortly from the House, it is my understanding, and which will correct many of the things that are regarded as patchworks in the present law. That is a correct statement, is it not?

Mr. GEORGE. Undoubtedly; yes.

Mr. BARKLEY. Have we not undertaken in this bill to bring about greater simplification not only by the formal table which we have made available to the persons included in the lower brackets but by the integration of the 10-percent defense tax which was levied last year?

So it is not a separate tax, but it is now included in the taxing system. We have, at least in that respect, made a very substantial contribution toward simplification of corporate taxes, as well as others.

Mr. GEORGE. The Senator is entirely correct.

Mr. President, I believe the yeas and nays have been ordered on this amendment.

The PRESIDING OFFICER (Mr. HILL in the chair). The question is on agreeing to the committee amendment on page 22, lines 3 to 25.

Mr. ADAMS. Mr. President, in order that I may definitely present my view, I am submitting an amendment. Its purpose is to continue the ratio which has existed with respect to the exemption for married persons as compared to that for single persons.

Mr. GEORGE. The purpose of the Senator from Colorado will be accomplished merely by defeating the committee amendment.

Mr. ADAMS. That is not the purpose of the Senator from Colorado. The purpose of the Senator from Colorado is to make some reduction in order to get back to the original act.

The PRESIDING OFFICER. The amendment of the Senator from Colorado will be stated.

The LEGISLATIVE CLERK. On page 22, in line 13, it is proposed to amend the committee amendment by striking out "$1,500" and inserting "$1,875."

Mr. ADAMS. Mr. President, my amendment would continue the ratio between the exemption for the single man and for the family at the basis of 1 to 2½. It seems to me that it is a fair thing to do. I am entirely unwilling to impose a 25-percent increase on the tax burden of the family while we are imposing a 6.3-percent increase on the single man, which is what the committee amendment would do.

Mr. O'MAHONEY. Mr. President, will the Senator yield?

Mr. ADAMS. Gladly.

Mr. O'MAHONEY. If I understand the argument the Senator from Colorado is making, and the response which was made to it by the chairman of the Finance Committee, the contention is that under the bill the Finance Committee asks the Senate to approve a scheme of taxation by which married persons shall be called upon to bear an increased share of the burden resulting from emergency expenditures, and that the justification of the proposed increase is merely that in a previous emergency the same added burden was placed upon married persons. Yet, in defense of lowering the exemption, the Senator from Georgia argues that it is essential to make a larger number of persons tax-conscious, and so the exemption is lowered upon single persons, as well as upon married persons. It seems to me that there is an inconsistency in this argument, and an unfairness which is not at all justified. I am convinced that the point of the Senator from Colorado is well taken, and I shall vote to support his amendment.

Mr. ADAMS. Mr. President, we speak of the provision as if it were an exemption. What it really amounts to is this: We are starting with the tax program which now exists, and we are increasing the tax burden. That is the foundation upon which we are building. My complaint is that, starting from that foundation, we are increasing the tax burden upon the family 25 percent, and upon the single person in the same bracket 6.3 percent, and I can see no justification for the discrimination as against the family units. Therefore, the amendment which I offer would continue the ratio which now exists. It would increase the tax burdens upon both, but would increase them at the same ratio. I think we shall have difficulty in justifying or sustaining the committee figures.

Some argument has been made as to the amount involved. As a matter of fact, we do not deal entirely with the single man whose income is just $750; we do not deal entirely with the family whose income is just $1,500. We are providing for an increased rate which will apply to those who may have families having an income, such as Members of the Senate have; and the increased tax will not be merely $1 or $2. No one knows so well as the Treasury Department that the amount which will be raised will be much more than appears upon the face of the bill; that is to say, surtax rates and other rates are being increased at the same time, so that much more is involved than merely the items of $1 and $2. As a matter of plain equity and plain justice, I do not think we have a right, in building upon a foundation, to increase the tax upon the family 25 percent, while we increase the tax upon the single man only 6.3 percent.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Colorado [Mr. ADAMS] to the committee amendment on page 22, lines 3 to 25.

Mr. GEORGE. Mr. President, let me call attention to what the Senate would do if it were to adopt the amendment of the Senator from Colorado. We would cut off approximately three-fourths of the revenue to be raised under the committee amendment. In other words, we would reduce it by at least $200,000,000; because there is very little left to the proposal if we reduce the exemption for the married man by only $125.

Mr. ADAMS. The Senator recognizes that there are two elements in tax bills.

Mr. GEORGE. Yes; I recognize that, and I know that the committee proposal is fair to the married man. I beg the Senator from Colorado to listen to me for a moment. Under the proposal which we are making, a single man who makes just a little over $60 a month will begin to pay taxes, while the married man can make $125 a month without paying taxes.

That is the way it translates itself in terms of dollars and cents, and that is about fair. It is just as fair as the Senator's arbitrary decision that the married man should have $1,875 exemption and the unmarried man $750. I might ask the Senator from Colorado where he obtained that figure, where he obtained that proposal, and what is sacred about the proposal.

It does not seem to the committee to be fair to tax a man until he has made at least about $15 a week, or $60 a month; and then the tax would commence at the low rate of $1 a year. It likewise seemed fair that when the married man makes $125 a month, he should begin to pay at the low rate.

I call this one fact to the attention of the Senator from Colorado, and of all other Senators who will be good enough to look at the facts: The single person who earns, let us say, $3,000, will pay $197 in taxes, while the married person will pay only $123 in taxes. That seems to the committee to be fair.

Mr. ADAMS. Mr. President, the Senator from Georgia is quite correct that there is no sanctity to the figures which the Senator from Colorado presents, but I suggest that there is no sanctity to the figures which the committee presents.

We are starting with a tax base; we are starting with an existing tax law which imposes certain tax burdens. My objection is that the bill picks out one group—the group that carries the burden of families—and increases their tax 25 percent, while it increases the tax of a single man only 6 percent. I am accepting the existing tax structure as the basis.

There are two things in tax legislation: One, of course, is the raising of revenue, but the other is that the revenue shall be raised by taxes which are equitable and just; and whenever a tax bill departs from justice and equity it cannot be sustained. The increase in this particular case is not just and proportionate.

The PRESIDING OFFICER. The question is on the amendment offered by the Senator from Colorado [Mr. ADAMS] to the amendment reported by the committee.

The amendment to the amendment was rejected.

The PRESIDING OFFICER. The question recurs on the committee amendment on page 22, beginning in line 3, on which the yeas and nays have been ordered. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. HOLMAN (when his name was called). I have a general pair with the junior Senator from Tennessee [Mr. STEWART]. I am advised that if he were present he would vote as I shall vote. I am therefore at liberty to vote, and vote "yea."

Mr. McNARY (when his name was called). On this vote I have a pair with the senior Senator from Tennessee [Mr. MCKELLAR]. If he were present, he would vote "yea." If permitted to vote, I should vote "nay."

The roll call was concluded.

Mr. TYDINGS. My colleague the Senator from Maryland [Mr. RADCLIFFE] is necessarily detained from the Senate. If he were present, he would vote "yea."

Mr. DAVIS. I have a general pair with the junior Senator from Kentucky [Mr. CHANDLER]. I understand that if he were present he would vote "yea." If I were permitted to vote, I should vote "nay."

Mr. HILL. I announce that the Senator from Washington [Mr. BONE], the Senator from Iowa [Mr. GILLETTE], the Senator from Virginia [Mr. GLASS], the Senator from North Carolina [Mr. REYNOLDS], and the Senator from New York [Mr. WAGNER] are absent from the Senate because of illness.

The Senator from Michigan [Mr. BROWN], the Senator from New Mexico [Mr. CHAVEZ], the Senator from Idaho [Mr. CLARK], the Senators from Tennessee [Mr. MCKELLAR and Mr. STEWART], the Senator from Utah [Mr. MURDOCK], the Senator from Florida [Mr. PEPPER], the Senator from Oklahoma [Mr. THOMAS], and the Senator from Montana [Mr. WHEELER] are necessarily absent.

The Senator from Kentucky [Mr. CHANDLER] is absent on a defense-inspection tour.

The Senator from Missouri [Mr. TRUMAN], the Senator from New York [Mr. MEAD], and the Senator from Washington [Mr. WALLGREN] are engaged in holding hearings on behalf of the Committee to Investigate the National Defense Program.

Mr. AUSTIN. I announce the following pair on this question:

The Senator from Massachusetts [Mr. LODGE], who would vote "nay," with the Senator from North Carolina [Mr. REYNOLDS], who would vote "yea."

I also announce the following general pairs:

The Senator from Indiana [Mr. WILLIS] with the Senator from New Mexico [Mr. CHAVEZ];

The Senator from Minnesota [Mr. SHIPSTEAD] with the Senator from Virginia [Mr. GLASS];

The Senator from South Dakota [Mr. GURNEY] with the Senator from Florida [Mr. PEPPER];

The Senator from Minnesota [Mr. BALL] with the Senator from Missouri [Mr. TRUMAN]; and

The Senator from Kansas [Mr. REED] with the Senator from Washington [Mr. WALLGREN].

The Senator from Minnesota [Mr. BALL], the Senator from South Dakota [Mr. GURNEY], the Senator from Massachusetts [Mr. LODGE], the Senator from Kansas [Mr. REED], and the Senator from Minnesota [Mr. SHIPSTEAD] are necessarily absent.

The Senator from Indiana [Mr. WILLIS] is absent because of a personal injury.

The result was announced—yeas 43, nays 23, as follows:

YEAS—43

Andrews	Burton	Hatch
Austin	Byrd	Hayden
Bailey	Caraway	Butler
Bankhead	Connally	Herring
Barbour	Eastland	Hill
Barkley	Ellender	Holman
Bilbo	George	Johnson, Colo.
Brewster	Gerry	Lucas
Bridges	Green	Maloney
Bunker	Guffey	O'Daniel
O'Mahoney	Smith	Van Nuys
Overton	Spencer	Walsh
Peace	Taft	Wiley
Schwartz	Thomas, Utah	
Smathers	Tydings	

NAYS—23

Adams	Hughes	Nye
Aiken	Kilgore	Rosier
Brooks	La Follette	Russell
Bulow	Langer	Thomas, Idaho
Capper	Lee	Tobey
Clark, Mo.	McCarran	Tunnell
Danaher	McFarland	Vandenberg
Downey	Murray	

NOT VOTING—30

Ball	Gillette	Mead
Bone	Glass	Murdock
Brown	Gurney	Norris
Chandler	Johnson, Calif.	Pepper
Chavez	Lodge	Radcliffe
Clark, Idaho	McKellar	Reed
Davis	McNary	Reynolds
Shipstead	Truman	Wheeler
Stewart	Wagner	White
Thomas, Okla.	Wallgren	Willis

So the committee amendment was agreed to.

The PRESIDING OFFICER. The clerk will state the next committee amendment passed over.

The next amendment passed over was, at the top of page 23, to insert:

SEC. 112. Returns of income tax.

(a) Individual returns: Section 51 (a) of the Internal Revenue Code is amended to read as follows:

"(a) Requirement: The following individuals shall each make under oath a return stating specifically the items of his gross income and the deductions and credits allowed under this chapter and such other information for the purpose of carrying out the provisions of this chapter as the Commissioner with the approval of the Secretary may by regulations prescribe—

"(1) Every individual who is single or who is married but not living with husband or wife, if having a gross income for the taxable year of $750 or over.

"(2) Every individual who is married and living with husband or wife, if no joint return is made under subsection (b) and if—

"(A) Such individual has for the taxable year a gross income of $1,500 or over, and the other spouse has no gross income; or

"(B) Such individual and his spouse each has for the taxable year a gross income and the aggregate gross income is $1,500 or over."

(b) Fiduciary returns: Section 142 (a) of the Internal Revenue Code is amended to read as follows:

"(a) Requirement of return: Every fiduciary (except a receiver appointed by authority of law in possession of part only of the property of an individual) shall make under oath a return for any of the following individuals, estates, or trusts for which he acts, stating specifically the items of gross income thereof and the deductions and credits allowed under this chapter and such other information for the purpose of carrying out the provisions of this chapter as the Commissioner with the approval of the Secretary may by regulations prescribe—

"(1) Every individual having a gross income for the taxable year of $750 or over, if single, or if married and not living with husband or wife;

"(2) Every individual having a gross income for the taxable year of $1,500 or over, if married and living with husband or wife;

"(3) Every estate the gross income of which for the taxable year is $750 or over;

"(4) Every trust the net income of which for the taxable year is $100 or over, or the gross income of which for the taxable year is $750 or over, regardless of the amount of the net income; and

"(5) Every estate or trust of which any beneficiary is a nonresident alien."

(c) Information returns: Section 147 (a) of the Internal Revenue Code (relating to information at the source) is amended by striking out "$800" wherever occurring therein and inserting in lieu thereof "$750."

Mr. GEORGE. Mr. President, that is a purely adjusting amendment, dependent upon the exemptions; and I think there will be no objection to its adoption.

The PRESIDING OFFICER. Without objection, the amendment is agreed to.

The clerk will state the next committee amendment passed over.

The LEGISLATIVE CLERK. The next committee amendment is, on page 32, lines 4 to 24, section 119, community income.

Mr. GEORGE. Mr. President, if it is agreeable to the Senators who are interested in the community-property amendment, I make the suggestion and express a willingness to take up first some of the other amendments that may be more quickly disposed of.

Mr. McCARRAN. Mr. President, I am wondering if it would be in keeping with the Senator's program if this matter might be understood as going over until tomorrow.

Mr. GEORGE. I should not be able to make such an agreement, because we might reach it before tomorrow. I should be very happy to do that if I could; but at the present time I cannot agree to postpone it for that long.

Mr. McCARRAN. May this matter, then, be considered as the last controversial item?

Mr. GEORGE. I am perfectly willing to have it considered as the last item now in the bill; but, of course, I could not say that some Senators would not offer amendments from the floor which would lead to controversy.

Mr. BARKLEY. The last controversial committee amendment.

Mr. GEORGE. That is what I understand the Senator to mean. That would be quite agreeable.

Mr. McCARRAN. The last controversial matter now in the bill.

Mr. GEORGE. Yes; the last committee amendment now made in the bill.

Mr. McCARRAN. Very well.

The PRESIDING OFFICER. Without objection, the community-property amendment will be deferred for consideration until all other committee amendments shall have been disposed of. The Chair hears no objection, and it is so ordered.

The clerk will state the next committee amendment passed over.

The next amendment passed over was, under the heading "Title II—Excess-profits tax", on page 33, after line 16, to strike out:

"(2) Special rule in certain cases where invested capital credit is used: In the case of a taxpayer entitled to have its excess-profits credit computed under either section 713 (income credit) or section 714 (invested capital credit), if the use of the credit under section 714 is more advantageous to the taxpayer, the tax imposed by this section shall be the sum of—

"(A) an amount determined under paragraph (1) of this subsection with the use of the credit provided in section 714, plus—

"(B) Ten percent of the amount, if any, by which—

"(i) the adjusted excess profits net income computed with the use of the credit under section 713 and with the excess-profits credit carry-over which would be available for the taxable year if the excess-profits credit applicable to each of the preceding taxable years for which tax is imposed by this subchapter had been the excess-profits credit computed under section 713, exceeds

"(ii) the adjusted excess-profits net income computed with the use of the credit under section 714.

"(3) Limitation on application of special rule: If the tax under paragraph (2) is greater than the amount determined, with the use of the credit provided in section 713, under paragraph (1) of this subsection, the tax shall be the amount so determined under paragraph (1)."

Mr. LA FOLLETTE. Mr. President, I think the Senate should have its attention drawn to this amendment.

As will be understood by those who have studied the present excess-profits tax law, we have a double-barreled system. Under the average-earnings method, corporations strike an average of their earnings from 1936 to 1939, and pay only on any excess earnings in the taxable year over and above the average for the so-called base period. Under the invested-capital method, a corporation computes its excess-profits-tax liability on the basis of its invested capital, and pays a tax on any profits over the percentage return allowed by the law. Obviously, the corporate taxpayer uses the method which results in the least tax liability.

As I view the matter, the House committee has moved in the direction of making the average-earnings method the primary-base method, permitting the invested-capital method to be employed in the nature of a relief provision. Whether I am correct about that is immaterial. The fact is that there are many corporations with high invested capital that have had very poor average-earning years in the base period, but that have made very substantial profits and will make increasingly substantial profits before they begin to pay any excess-profits tax.

Mr. President, I am not advocating the rejection of the committee amendment in this regard upon any basis of theoretical taxation. It simply comes down to the question whether we wish to permit corporations which have high invested capital, which are suddenly receiving tremendously increased profits directly and indirectly from the defense program, to go on paying no excess-profits tax because their earnings do not eat up the credits which they have under the invested-capital method.

The House evidently endeavored to reach that situation by imposing a 10-percent tax on corporations using the invested-capital method. From the standpoint of theory, perhaps the tax is not so easily justified; but from the standpoint of practical results, it may have much to commend it, especially since we are using this double-barreled method of taxation.

I wish to cite a few examples of the corporations I have in mind.

Take the case of the United States Steel Corporation, for example. Its net income in 1936 was $62,300,000. In 1937 it was $125,400,000. In 1938 it had a deficit of $4,800,000, and in 1939 a net income of $54,100,000. Therefore, the average for 1936–39 is $59,200,000. Earnings in 1940, however, were $155,800,000. The excess of earnings in 1940 over the 1936–39 average amounted to $96,600,000; but because of the high capitalization of the United States Steel Corporation it has no excess-profits tax liability under the existing law.

Mr. WALSH. Mr. President, will the Senator yield?

Mr. LA FOLLETTE. I yield to the Senator from Massachusetts.

Mr. WALSH. Notwithstanding the fact that it is one of the corporations in the country that undoubtedly has benefited by the large number of defense contracts.

Mr. LA FOLLETTE. The increase in profits of the United States Steel Corporation in 1940 over the 1936–39 average is 163 percent.

Mr. WALSH. Is it not fair to assume that a good deal of that is the result of its Government contracts?

Mr. LA FOLLETTE. As the Senator points out, of course, all steel companies are direct beneficiaries of the defense program. United States Steel was awarded defense contracts in the amount of $209,900,000 between June 1940 and June 1941.

Mr. WALSH. Will the Senator tell us, if he has the figures, what the United States Steel Co. would pay in excess-profits tax under the bill as it passed the House? As I understand, it would pay nothing under the Senate committee bill.

Mr. LA FOLLETTE. I am afraid I do not have those figures at hand.

Mr. WALSH. It would be a rather substantial tax.

Mr. LA FOLLETTE. It would be a substantial amount. As it now stands, they did not pay any excess-profits tax in 1940. Of course, how much their net income may increase in 1941, to absorb their credit under the invested capital method, I have no way of knowing.

Mr. WALSH. I think I have seen figures somewhere, submitted by the Treasury, taken from the financial reports which were available of profits for the first 6 months of this year, indicating that they would pay no excess-profits tax, or a very slight one.

Mr. LA FOLLETTE. Of course, that is true. Another example is the American Woolen Co., which in 1936 had a net income of $2,550,000; in 1937 a deficit of $1,690,000; in 1938 a deficit of $4,870,000; in 1939 a net income of $2,740,000. The average for the base period, 1936 to 1939, was a deficit of $320,000. The excess of earnings in 1940 over the 1936–39 average amounted to $4,280,000, but their excess-profits tax liability under the existing excess-profits tax law is nothing.

The American Car & Foundry Co. is another example in point. In 1936 they had a net income of $1,410,000: in 1937 a net income of $960,000; in 1938 a deficit of $1,540,000; in 1939 a net income of $200,000. Their average, 1936 to 1939, was $260,000. Their excess of earnings in 1940 over the 1936–39 average was $6,320,000, but their excess-profits tax liability is nothing under the existing law.

The International Paper & Power Co. had an average in 1936–39 of $5,120,000. Their 1940 net income, according to published data, was $23,180,000. Their excess-profits tax liability, however, is only $2,130,000.

As I recall, the Treasury estimates that approximately $67,000,000 is involved in this item, which will be lost to the Treasury if the committee's recommendation prevails.

I do not wish to labor the point, but I believe that the House made a conscientious effort to reach corporations using the invested-capital method which it felt were direct or indirect beneficiaries of the defense program and which should be paying some excess-profits tax as a result of that situation. As I stated at the outset, however, the tax in theory is perhaps not a proper tax, but we are confronted here, in a way, with a situation of which I thought the Senate should be aware before it voted upon this matter.

Mr. GEORGE. Mr. President, the distinguished Senator from Wisconsin is somewhat wrong in his figures. Under the pending bill these rates are retroactive to the 1st of January. While I do not like to take particular companies, United States Steel, for instance, will pay a very heavy excess-profits tax this year. In 1940, because the upward industrial movement did not begin until the last 3 or 4 months of the year, they did not reach the level of their credit; the Senator is quite right about that.

Mr. LA FOLLETTE. I did not make that statement; I was very careful, if the Senator will permit me, to point out that I had no way of knowing what their tax liability would be under existing law.

Mr. WALSH. I think I gave that information. My impression was, and it may be a fact, that they did not pay any this year.

Mr. GEORGE. They did not pay any as of March 15.

Mr. WALSH. My information was that they would not pay any under the Senate committee provisions, but would under the House text.

Mr. GEORGE. The statement the Senator from Wisconsin has made with reference to steel corporations undoubtedly is accurate. But most of all these large payers would, under the bill, have paid something in 1940, not all of them, but some of them. Certainly a large earning company such as the United States Steel Corporation will pay a considerable amount in taxes in 1940, under the bill. The 10 percent, of course, would apply under those circumstances if their earnings in the base period were less than the invested-capital credit.

The United States Steel Corporation, from the very best information I am able to obtain, will actually pay an excess-profits tax of more than $12,000,000, and a normal tax of over $27,000,000, or a total tax of approximately $39,000,000. And many of the higher-earning corporations will also pay heavy taxes under the bill.

With reference to one of the high earners using the average earnings base, I should like to call attention to certain figures, which I have verified, using round numbers. One company paid a tax in 1939 of $7,000,000. In 1940—and this is on the average earning base, not the invested capital base—it paid a tax of $12,500,000, of which $1,000,000 was excess-profits tax. Under the pending bill the 1941 tax, at the rate of earning for the two first quarters of the year and for the third quarter, will amount to $24,300,000, of which $5,000,000 will be excess-profits taxes. So that there is a group of corporate taxpayers who have not earned enough to get above their excess-profits credit even for the current year, perhaps, and many of them earned enough to show a substantial increase in earnings.

The position of the Treasury is easily understandable, and, of course, makes a rather strong appeal, that is, that such companies as have profited presumably by the general increase in business due to Federal spending or the defense progam, many of which have profited directly from that program, but have not reached earnings equal to their excess-profits credit, though they have traveled far toward that credit base, should pay some tax. That is the theory on which this tax was imposed by the House, as I understand. As I said it has a good deal to commend it, particularly when we consider a corporation whose earnings are directly traceable or almost directly traceable to the defense spending by the Government. But it seemed to me to be so unsound that we ought not to approve it, for this reason: Whatever excess-profits tax we have, and whatever the basis of that excess-profits tax is, whether invested capital or average earnings, or both, if such earnings do not exceed what we have fixed as a normal return through the invested capital credit or the average earnings credit they have not realized excess profits. In the pending bill, as Senators know, the excess profits, when they are ascertained, are taxable at the rate of 35 percent of the first $20,000, and are taxable at 60 percent on all over $500,000. So whatever the credit is, and whatever the defect may be in the excess-profits tax, whether we have the right base, or whether we have given too high a credit, or whether the credit is excessive, it would seem that we ought to adhere to something like consistency in imposing the tax, and see to it that this extremely high tax on excess profits will not be applied unless the corporation has earned its full credit.

Mr. WALSH. Mr. President, will the Senator yield?

Mr. GEORGE. I am glad to yield to the Senator from Massachusetts.

Mr. WALSH. The Senator's statement is very fair and is an admirable presentation of the pros and cons of this delicate and intricate subject. There is this to be said, I think, that if the Senate committee amendment is adopted, as it probably will be, the whole subject will be open to consideration in conference.

Mr. GEORGE. I was about to remark that if the Senate committee amendment is approved the whole subject anyway will be in conference, and there will be opportunity to give consideration to this special tax.

Mr. VANDENBERG. Mr. President, will the Senator yield?

Mr. GEORGE. I am glad to yield.

Mr. VANDENBERG. Might there not be a middle ground where minds might meet on the basis of the suggestion originally submitted by the able Senator from Ohio [Mr. TAFT]? In other words, might there not be a primary cushion of 2- or 3-percent exemption established before the 10-percent penalty is applied, so as to cushion the effect of the tax against those upon whom it would obviously be unfairly burdensome, and yet to reach those in the classification the Senator from Wisconsin [Mr. LA FOLLETTE] has been discussing?

Mr. GEORGE. Mr. President, I should like to say to the Senator from Michigan that I think there was much in the suggestion which I believe originally was made by the Senator from Ohio. His precise proposal would probably bear heaviest upon the relatively small corporation. If it is found desirable in conference, where the whole question will be open, to impose some tax and at the same time not work an undue hardship upon relatively small companies, I should like to express the hope that the Senator from Wisconsin, who will be one of the conferees, of course, will allow the Senate committee amendment to be approved, because it will be in conference, and there will be an opportunity to work out something on this particular section of the tax bill.

The PRESIDING OFFICER (Mr. KILGORE in the chair). The question is on agreeing to the committee amendment on page 33, beginning with line 17 and ending in line 4 on page 35.

The amendment was agreed to.

The PRESIDING OFFICER. The next amendment passed over at the instance of the chairman of the Finance Committee will be stated.

The next amendment passed over was, on page 36, line 1, to strike out:

SEC. 202. Disclaimer of credit.

(a) Section 712 (c) of the Internal Revenue Code (relating to disclaimers of excess-profits credit is amended to read as follows:

"(c) Effect of disclaimer of credit: If the taxpayer states in its return for the taxable year under this subchapter that it disclaims the use of the credit computed under section 714, such credit shall not, for the purposes of the internal-revenue laws, be applicable to the computation of the tax under this subchapter for such taxable year."

(b) The last sentence of section 729 (b) (1) is amended to read as follows: "If the taxpayer states in such return that it disclaims the use of the credit computed under section 714 in the computation of the tax under this subchapter for the taxable year, the computation and information based on such credit may be omitted from the return."

(c) Section 741 (b) of the Internal Revenue Code (relating to disclaimers of excess-profits credit) is amended to read as follows:

"(b) Effect of disclaimer of credit: If the taxpayer states in its return for the taxable year under this subchapter that it disclaims the use of the credit computed under section 714, such credit shall not, for the purposes of the internal-revenue laws, be applicable to the computation of the tax under this subchapter for such taxable year."

SEC. 203. Cases in which no return required.

Section 729 (b) (2) of the Internal Revenue Code is amended to read as follows:

"(2) No return required: Notwithstanding subsection (a), no return under section 52 (a) shall be required to be filed under this subchapter:

"(A) By any taxpayer entitled to have its excess-profits credit computed under either section 713 or section 714 for any taxable year for which its excess-profits net income, computed with the adjustments provided in section 711 (a) (1) and placed on an annual basis as provided in section 711 (a) (3), is not greater than $5,000; or

"(B) By any taxpayer not entitled to have its excess-profits credit computed under section 713 for any taxable year for which its excess-profits net income, computed with the adjustments provided in section 711 (a) (2) and placed on an annual basis as provided in section 711 (a) (3), is not greater than $5,000."

Mr. GEORGE. Mr. President, that amendment, I think, should now be agreed to because it is connected with or tied up with the special 10-percent excess-profits tax which the Senate has just passed upon. It becomes necessary to agree to it especially since that amendment has been agreed to.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment beginning at the top of page 36 and continuing down to and including line 20 on page 37.

The amendment was agreed to.

The PRESIDING OFFICER. The next committee amendment, being in title 4, which was passed over at the instance of the Senator from Wisconsin [Mr. LA FOLLETTE] will be stated.

The next committee amendment passed over was, on page 51, after line 21, to strike out:

If the net estate is—	The tentative tax shall be—
Not over $5,000	3% of the net estate.
Over $5,000 but not over $10,000	$150, plus 7% of excess over $5,000.
Over $10,000 but not over $20,000	$500, plus 10% of excess over $10,000.
Over $20,000 but not over $30,000	$1,500, plus 13% of excess over $20,000.
Over $30,000 but not over $40,000	$2,800, plus 16% of excess over $30,000.
Over $40,000 but not over $50,000	$4,400, plus 20% of excess over $40,000.
Over $50,000 but not over $60,000	$6,400, plus 23% of excess over $50,000.
Over $60,000 but not over $100,000	$8,700, plus 25% of excess over $60,000.
Over $100,000 but not over $250,000	$18,700, plus 27% of excess over $100,000.
Over $250,000 but not over $500,000	$59,200, plus 29% of excess over $250,000.
Over $500,000 but not over $750,000	$131,700, plus 32% of excess over $500,000.
Over $750,000 but not over $1,000,000	$211,700, plus 34% of excess over $750,000.
Over $1,000,000 but not over $1,250,000	$296,700 plus 36% of excess over $1,000,000.
Over $1,250,000 but not over $1,500,000	$386,700, plus 38% of excess over $1,250,000.
Over $1,500,000 but not over $2,000,000	$481,700, plus 41% of excess over $1,500,000.
Over $2,000,000 but not over $2,500,000	$686,700, plus 45% of excess over $2,000,000.
Over $2,500,000 but not over $3,000,000	$911,700, plus 48% of excess over $2,500,000.
Over $3,000,000 but not over $3,500,000	$1,151,700, plus 51% of excess over $3,000,000.
Over $3,500,000 but not over $4,000,000	$1,406,700, plus 54% of excess over $3,500,000.
Over $4,000,000 but not over $5,000,000	$1,676,700, plus 58% of excess over $4,000,000.
Over $5,000,000 but not over $6,000,000	$2,256,700, plus 61% of excess over $5,000,000.
Over $6,000,000 but not over $7,000,000	$2,866,700, plus 64% of excess over $6,000,000.
Over $7,000,000 but not over $8,000,000	$3,506,700, plus 66% of excess over $7,000,000.
Over $8,000,000 but not over $10,000,000	$4,166,700, plus 69% of excess over $8,000,000.
Over $10,000,000	$5,546,700, plus 70% of excess over $10,000,000.

And in lieu thereof to insert:

If the net estate is—	The tentative tax shall be—
Not over $5,000	3% of the net estate.
Over $5,000 but not over $10,000	$150, plus 7% of excess over $5,000.
Over $10,000 but not over $20,000	$500, plus 11% of excess over $10,000.
Over $20,000 but not over $30,000	$1,600, plus 14% of excess over $20,000.
Over $30,000 but not over $40,000	$3,000, plus 18% of excess over $30,000.
Over $40,000 but not over $50,000	$4,800, plus 22% of excess over $40,000.
Over $50,000 but not over $60,000	$7,000, plus 25% of excess over $50,000.
Over $60,000 but not over $100,000	$9,500, plus 28% of excess over $60,000.
Over $100,000 but not over $250,000	$20,700, plus 30% of excess over $100,000.
Over $250,000 but not over $500,000	$65,700, plus 32% of excess over $250,000.
Over $500,000 but not over $750,000	$145,700, plus 35% of excess over $500,000.
Over $750,000 but not over $1,000,000	$233,200, plus 37% of excess over $750,000.
Over $1,000,000 but no over $1,250,000	$325,700, plus 39% of excess over $1,000,000.
Over $1,250,000 but not over $1,500,000	$423,200, plus 42% of excess over $1,250,000.
Over $1,500,000 but not over $2,000,000	$528,200, plus 45% of excess over $1,500,000.
Over $2,000,000 but not over $2,500,000	$753,200, plus 49% of excess over $2,000,000.
Over $2,500,000 but not over $3,000,000	$998,200, plus 53% of excess over $2,500,000.
Over $3,000,000 but not over $3,500,000	$1,263,200, plus 56% of excess over $3,000,000.
Over $3,500,000 but not over $4,000,000	$1,543,200, plus 59% of excess over $3,500,000.
Over $4,000,000 but not over $5 000,000	$1,838,200, plus 63% of excess over $4,000,000.
Over $5,000,000 but not over $6,000,000	$2,468,200, plus 67% of excess over $5,000,000.
Over $6,000,000 but not over $7,000 000	$3,138,200, plus 70% of excess over $6,000,000.
Over $7,000,000 but not over $8,000,000	$3,838,200, plus 73% of excess over $7,000,000.
Over $8,000,000 but not over $10,000,000	$4,568,200, plus 76% of excess over $8,000,000.
Over $10,000,000	$6,088,200, plus 77% of excess over $10,000,000.

Mr. GEORGE. Mr. President, does the Senator from Wisconsin desire to offer an amendment?

Mr. LA FOLLETTE. Mr. President, I desire to offer in lieu of the schedule proposed to be inserted by the committee amendment, the amendments which were originally proposed to the House Ways and Means Committee by the Treasury. If it is agreeable to the Senator from Georgia I can do so now.

Mr. GEORGE. Mr. President, I think that may as well be done, unless there is some reason why the Senator would like to have the matter go over.

Mr. LA FOLLETTE. No; I have no desire to have it go over.

Mr. President, I offer an amendment on pages 52 and 53, in lieu of the schedule proposed to be inserted by the committee amendment, and I ask unanimous consent that the amendment may be printed in the RECORD as though read, because I can explain very briefly what the amendment proposes to do.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

On pages 52 and 53, in lieu of the schedule proposed to be inserted by the committee amendment, insert the following schedule:

If the net estate is—	The tentative tax shall be—
Not over $5,000	4% of the net estate.
Over $5,000 but not over $10,000	$200, plus 8% of excess over $5,000.
Over $10,000 but not over $20,000	$600, plus 13% of excess over $10,000.
Over $20,000 but not over $30,000	$1,900, plus 17% of excess over $20,000.
Over $30,000 but not over $40,000	$3,600, plus 22% of excess over $30,000.
Over $40,000 but not over $60,000	$5,800, plus 25% of excess over $40,000.
Over $60,000 but not over $80,000	$10,800, plus 28% of excess over $60,000.
Over $80,000 but not over $100,000	$16,400, plus 31% of excess over $80,000.
Over $100,000 but not over $150,000	$22,600, plus 34% of excess over $100,000.
Over $150,000 but not over $200,000	$39,600, plus 37% of excess over $150,000.
Over $200,000 but not over $250,000	$58,100, plus 40% of excess over $200,000.
Over $250,000 but not over $300,000	$78,100, plus 44% of excess over $250,000.
Over $300,000 but not over $500,000	$100,100, plus 48% of excess over $300,000.
Over $500,000 but not over $1,000,000	$196,100, plus 52% of excess over $500,000.
Over $1,000,000 but not over $2,000,000	$456,100, plus 54% of excess over $1,000,000.
Over $2,000,000 but not over $3,000,000	$996,100, plus 56% of excess over $2,000,000.
Over $3,000,000 but not over $4,000,000	$1,556,100, plus 58% of excess over $3,000,000.
Over $4,000,000 but not over $5,000,000	$2,136,100, plus 61% of excess over $4,000,000.
Over $5,000,000 but not over $6,000,000	$2,746,100, plus 63% of excess over $5,000,000.
Over $6,000,000 but not over $7,000,000	$3,376,100, plus 65% of excess over $6,000,000.
Over $7,000,000 but not over $8,000,000	$4,026,100, plus 67% of excess over $7,000,000.
Over $8,000,000 but not over $9,000,000	$4,696,100, plus 69% of excess over $8,000,000.
Over $9,000,000 but not over $10,000,000	$5,386,100, plus 71% of excess over $9,000,000.
Over $10,000,000 but not over $20,000,000	$6,096,100, plus 73% of excess over $10,000,000.
Over $20,000,000 but not over $50,000,000	$13,396,100, plus 75% of excess over $20,000,000.
Over $50,000,000	$35,896,100, plus 77% of excess over $50,000,000.

On page 54, between lines 3 and 4, insert the following new subsection:

"(b) Exemption reduced: Section 935 (b) of the Internal Revenue Code is amended by striking out '$40,000' and inserting in lieu thereof '$25,000'."

On page 54, line 4, strike out "(b)" and in lieu thereof insert "(c)."

On page 54, between lines 5 and 6, insert the following subsection:

"(d) Insurance exemption for estate taxes reduced: Section 811 (g) of the Internal Revenue Code is amended by striking out '$40,000' and inserting in lieu thereof '$25,000'."

On page 54, line 6, strike out "(c)" and in lieu thereof insert "(e)"; and in the same line, strike out "(a) and (b)" and in lieu thereof insert "(a), (b), (c), and (d)."

On pages 55 and 56, in lieu of the rate schedule proposed to be inserted by the committee amendment insert the following:

If the net gifts are—	The tax shall be—
Not over $5,000	3% of the net gifts.
Over $5,000 but not over $10,000	$150, plus 6% of excess over $5,000.
Over $10,000 but not over $20,000	$450, plus 9¾% of excess over $10,000.
Over $20,000 but not over $30,000	$1,425, plus 12¾% of excess over $20,000.
Over $30,000 but not over $40,000	$2,700, plus 16¼% of excess over $30,000.
Over $40,000 but not over $60,000	$4,350, plus 18¾% of excess over $40,000.
Over $60,000 but not over $80,000	$8,100, plus 21% of excess over $60,000.
Over $80,000 but not over $100,000	$12,300, plus 23¼% of excess over $80,000.
Over $100,000 but not over $150,000	$16,950, plus 25½% of excess over $100,000.
Over $150,000 but not over $200,000	$29,700, plus 27¾% of excess over $150,000.
Over $200,000 but not over $250,000	$43,575, plus 30% of excess over $200,000.
Over $250,000 but not over $300,000	$58,575, plus 33% of excess over $250,000.
Over $300,000 but not over $500,000	$75,075, plus 36% of excess over $300,000.
Over $500,000 but not over $1,000,000	$147,075, plus 39% of excess over $500,000.
Over $1,000,000 but not over $2,000,000	$342,075, plus 40½% of excess over $1,000,000.

If the net estate is—	The tentative tax shall be—
Over $2,000,000 but not over $3,000,000	$747,075, plus 42% of excess over $2,000,000.
Over $3,000,000 but not over $4,000,000	$1,167,075, plus 43½% of excess over $3,000,000.
Over $4,000,000 but not over $5,000,000	$1,602,075, plus 45¾% of excess over $4,000,000.
Over $5,000,000 but not over $6,000,000	$2,059,575, plus 47¼% of excess over $5,000,000.
Over $6,000,000 but not over $7,000,000	$2,532,075, plus 48¾% of excess over $6,000,000.
Over $7,000,000 but not over $8,000,000	$3,019,575, plus 50¼% of excess over $7,000,000.
Over $8,000,000 but not over $9,000,000	$3,522,075, plus 51¾% of excess over $8,000,000.
Over $9,000,000 but not over $10,000,000	$4,039,575, plus 53¼% of excess over $9,000,000.
Over $10,000,000 but not over $20,000,000	$4,572,075, plus 54¾% of excess over $10,000,000.
Over $20,000,000 but not over $50,000,000	$10,047,075, plus 56¼% of excess over $20,000,000.
Over $50,000,000	$26,922,075, plus 57¾% of excess over $50,000,000."

On page 56, after the rate schedule, insert the following new subsection:

"(b) Exemption reduced: Section 1004 (a) (1) of the Internal Revenue Code is amended by striking out '$40,000' and inserting in lieu thereof '$25,000'."

On page 56, line 1, strike out "(b)" and in lieu thereof insert "(c)."

On page 56, line 16, strike out "(c)" and in lieu thereof insert "(d)."

Mr. LA FOLLETTE. Mr. President, the Treasury in its recommendation to the House Ways and Means Committee, proposed substantial increases in the estate tax rates. The House Ways and Means Committee went about half way, approximately, between the existing law and the Treasury proposal.

Under the terms of my amendment, after the exemption of $25,000, the rates start at 4 percent of the net estate, if the net estate is less than $5,000, and go up by progressive brackets. If the net estate were over $50,000,000, the tax would be $35,896,100, plus 77 percent of the excess over $50,000,000.

My amendment proposes to reduce the existing exemption by striking out $40,000, the present exemption, and inserting in lieu thereof $25,000. So if my amendment is adopted an estate of $25,000 would be exempt, as against an estate of $40,000, which is now exempt under existing law and under the provisions of the bill as reported by the committee.

My amendment also proposes to reduce the insurance exemption from $40,000 to $25,000.

Mr. President, if my amendment were enacted into law it would produce approximately an additional $202,000,000 over and above the amount produced by the House rates and by the rates confirmed by the Senate committee. Let me give a few examples of taxes on net estates, before exemption, under existing law, under the Finance Committee proposal, under my amendment, and under the British law.

In Great Britain a net estate, before exemption, of $2,500 would pay $50; an estate of $5,000 would pay $150; an estate of $10,000 would pay $300; and an estate of $25,000 would pay $1,000.

Under the existing law in this country a net estate, before exemption, of $30,000, of course, pays nothing, because of the $40,000 exemption. Under the terms of the bill as reported by the Finance Committee it would pay nothing. Under my amendment it would pay $200; and under the British law, $1,200.

An estate of $35,000 would pay nothing under the existing law. Under the terms of the bill as reported by the Finance Committee it would pay nothing. Under the terms of my amendment it would pay $600. In Great Britain it would pay $1,400.

Under existing law an estate of $40,000 would pay nothing. Under the Finance Committee bill it would pay nothing. Under my amendment it would pay $1,250. In Great Britain it would pay $1,600.

An estate of $50,000 would pay $220 under existing law. Under the terms of the bill as reported by the committee it would pay $500. Under my amendment it would pay $2,750. In Great Britain it would pay $3,600.

An estate of $60,000 would pay $660 under existing law. Under the bill as reported by the committee it would pay $1,600. Under my amendment it would pay $4,700. In Great Britain it would pay $4,320.

An estate of $80,000 would pay $2,200 under existing law. Under the Finance Committee bill it would pay $4,800. Under my amendment it would pay $9,550. Under the British law it would pay $7,680.

An estate of $200,000 would pay $20,460 under existing law. Under the bill as reported from the committee it would pay $38,750. Under my amendment it would pay $48,850. Under the British law it would pay $39,000.

An estate of $500,000 would pay $77,440 under existing law. Under the Finance Committee bill it would pay $132,900. Under my amendment it would pay $184,100. Under the British law it would pay $143,000.

An estate of $2,000,000 would pay $488,400 under existing law. Under the Finance Committee bill it would pay $735,200. Under my amendment it would pay $983,100. Under the British law it would pay $832,000.

An estate of $10,000,000 would pay $4,255,900 under existing law. Under the bill as reported from the Committee it would pay $6,057,800. Under my amendment it would pay $6,078,350. Under British law it would pay $6,500,000.

Mr. President, the Senate has just gone on record in favor of reducing the personal income-tax exemptions, reaching down into the lower brackets. The justification advanced for such action is that, despite the effect of the amendment upon the standard of living of those in the lower-income groups, the emergency which the country confronts from a fiscal standpoint justifies the imposition of such taxes. It seems to me that if the Senate is to take the position that the long arm of the Government is to reach into the pockets of the low-income groups, by the same token we should increase the taxes on estates.

It is my opinion that the original recommendations of the Treasury Department, which are borne out by the rates proposed in my amendment, were amply justified. Except for the argument which may be advanced that small estates should be reserved for the taxation of States under their inheritance or State tax laws, I see no compelling argument against the utilization of an increase in the estate taxes in order to raise additional revenue. Since we have not followed the principle of permitting the States to reserve to themselves fields of taxation, I believe we are more than justified in increasing the rates upon estates. In my opinion, in many respects it is the most just of all the graduated systems of taxation.

Under the terms of the bill reported by the committee, an estate of $41,000 would bear a Federal tax of $30. It may be pointed out that the same amount would be paid by a single individual earning $21.65 a week. If we are going about the revision of the tax structure piecemeal, as recommended by the chairman of the committee, which I believe is absolutely impossible of accomplishment, I believe that this is the time to take a step in the right direction so far as estate taxes are concerned. Therefore, Mr. President, I hope that the Senate will give consideration to my amendment. I hope it may be possible to obtain a record vote. I ask for the yeas and nays.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Wisconsin [Mr. LA FOLLETTE] to the committee amendment on page 51, beginning after line 21. On this question the yeas and nays have been demanded.

The yeas and nays were not ordered.

Mr. LA FOLLETTE. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

Adams	Downey	Murray
Aiken	Eastland	Nye
Andrews	Ellender	O'Daniel
Austin	George	O'Mahoney
Bailey	Gerry	Overton
Bankhead	Gillette	Peace
Barbour	Green	Radcliffe
Barkley	Guffey	Rosier
Bilbo	Hatch	Russell
Brewster	Hayden	Schwartz
Bridges	Herring	Smathers
Brooks	Hill	Smith
Bulow	Holman	Spencer
Bunker	Hughes	Taft
Burton	Johnson, Colo.	Thomas, Idaho
Butler	Kilgore	Thomas, Utah
Byrd	La Follette	Tobey
Capper	Langer	Tunnell
Caraway	Lee	Tydings
Clark, Idaho	Lucas	Vandenberg
Clark, Mo.	McCarran	Van Nuys
Connally	McFarland	Walsh
Danaher	McNary	Wiley
Davis	Maloney	

The PRESIDING OFFICER. Seventy-one Senators having answered to their names, a quorum is present.

Mr. LA FOLLETTE. Mr. President, I have just offered an amendment which I conceive to be of some importance to this bill, providing for increased estate-tax rates. I asked for a sufficient second to my demand for the yeas and nays on the amendment, but was unable to obtain it. I wish to renew that demand while a sufficient number of Senators remain in the Chamber.

The yeas and nays were ordered.

Mr. GEORGE. Mr. President, I wish to be heard on this amendment. As I understand the amendment it is both

for the purpose of reducing the exemptions and increasing the rates.

Mr. LA FOLLETTE. It would reduce the exemption from $40,000 to $25,000, and the insurance exemption from $40,000 to $25,000, and would increase the rates, as well, as was shown by the table I quoted.

Mr. GEORGE. I understood that. I did not know whether the Senator from Wisconsin was offering all of it at one time or separately.

Mr. President, I hope very much that the Senate will give serious attention to the amendment. The amendment proposed by the Senator from Wisconsin would reduce from $40,000 to $25,000 the specific credit which now is allowed to an estate, and also would reduce from $40,000 to $25,000 the insurance exclusion. By that is simply meant that if a man who dies is fortunate enough to have insurance of $40,000 or more payable to others than to his estate, an estate tax does not have to be paid upon $40,000 of his insurance. If the man does not have any insurance, the whole matter is a pipe dream to him, anyway, and the provision would not affect him. Actually it would help only those persons who are able to carry and do carry insurance.

The present exemption is a $40,000 specific exemption and a $40,000 insurance exemption. Why is that? There is a very good and sound reason for it. On an estate of $40,000 or less the States levy high taxes. In some instances—in one State, I believe—the tax actually applies on the whole estate above $500. In other words, the State itself levies a tax not only on the larger estates but on the smaller estates. There has been a controversy for many years between the States and the Federal Government, the States insisting that the estate taxes should be levied for State purposes. We have not done that. We impose a Federal tax, but we do not tax below $40,000; we give an exemption of $40,000 largely on the theory—and it is a perfectly sound and right theory—that an estate which does not exceed $40,000 should be taxed only by the States and not by the Federal Government. A credit is given for the State tax paid as against the Federal tax only if the estate amounts to $100,000 or more. The estates which would be brought under the bill and taxed by the Federal Government if this amendment should be adopted—that is if the exemption should be lowered from $40,000 to $25,000—the estates which fall within the bracket of from $25,000 to $40,000 should be taxed solely by the States. That is a field which the States have insisted with a great deal of force ought not to be taken away from them. For the tax paid the State, whether Ohio, Michigan, or Rhode Island, or any other State, the estate, as I have said, can get no credit against the Federal tax because the credit is only applicable and may be availed of only when the estate is $100,000 or more.

Now, a word as to the rates. The rates proposed exceed the rates now fixed by Great Britain even in wartime on an estate of $60,000. In other words, on a net estate of $60,000 in the United Kingdom the pre-war tax was $3,600; now it is $4,320. Under the proposed amendment of the Senator from Wisconsin the Federal tax would be $4,840, or $500 higher than the English are paying under present war conditions.

On an estate of $100,000 the British tax now is $10,800. Under the proposal made by the Senator from Wisconsin the United States tax would be $15,290.

On an estate of $500,000 the British pre-war tax was $121,000, and at present the tax is $143,000 on a $500,000 estate. The proposed increase, if adopted, would carry that tax up to $177,100 for the United States.

The House has already increased the rates above preexisting rates; it has cut in between the existing rate and the British rate. But the strongest reason why we should not tax the little estates of $40,000 and under is that they can have no credit against the Federal tax for the tax paid the State, and because at least that much of the estate-tax field should be left to the States themselves.

So I hope that the amendment will not be adopted. The increases made by the House are substantial, and I believe will result in a total increase in the estate tax of approximately $141,600,000 over the present rate, and the gift-tax increase of $16,000,000.

Mr. LA FOLLETTE. Mr. President, I wish to say just a word. The Senator's argument, so far as estates are concerned, might be very compelling if the Senator were consistent about it, but, as Senators know, the States are already taxing persons in the low-income tax brackets and the Senator has not hesitated to go on record to permit the Federal Government to invade that field. The same thing is true of gasoline taxes and practically all other taxes which are proposed by the pending bill and have been in past bills and which invade various fields of taxation.

I should like also to say, Mr. President, that when we reach down into the low-income groups for needed income taxation on the ground that we are facing a grave national emergency, I do not think we contribute to the national morale, and I do not think we contribute to national unity when we become tender about estates and are not willing to ask that their burden be substantially increased over and above what the House provided. The issue it seems to me is clear. It is merely a question of whether we regard the accumulation of wealth as more important than the standard of living of people in the lower income groups. I am perfectly content to let the matter go to the Senate.

Mr. TAFT. Mr. President, I am opposed to the La Follette amendment for several reasons. In the first place, it seems to me that inheritances are not a proper subject of emergency taxation. There is no reason in the world why the estate of a man who dies during the period of 3 or 4 years of a crisis should necessarily pay a larger tax or why his widow should be worse off than the widow of a man who dies just before a war or just after a war. Unless we are going to say this ought to be the permanent tax rate in the United States for all time to come, I do not think we ought to vote for this increase in this schedule.

Mr. LA FOLLETTE. Mr. President, will the Senator yield?

Mr. TAFT. I yield.

Mr. LA FOLLETTE. The fact of the matter is, however, that this tax has been employed in past financial crises not only by this Government but by other governments.

Mr. TAFT. I am stating that I think that it is a wrong policy, and I certainly think it ought not to be carried to extreme. Because more crimes have been committed in tax systems in the past than it is possible to conceive of is no reason, it seems to me, why they should be continued.

Mr. LA FOLLETTE. Does the Senator think that an increase of a few hundred dollars on a net estate is any less justifiable in an emergency than to go down into the low-income groups in the case of the income taxation?

Mr. TAFT. Absolutely I do, because it affects the accumulation a man has made during his entire life, an accumulation which is not attributable to this particular emergency. An estate is no larger because of the present emergency; it is no larger in time of war than in time of peace, but the man in the low-income brackets is getting more money; wages have increased in total volume nearly 50 percent in a couple of years.

Mr. LA FOLLETTE. They may be getting increased wages, but what the Senator has already gone on record to do is to tax the increase in wages in the very low income groups, yet he takes the position that because a person has been fortunate enough to accumulate an estate he should not be taxed because it is bad tax policy. I cannot follow the Senator's logic.

Mr. TAFT. I say because he has been able enough, has been diligent enough, has been industrious enough, and because he has worked all his life as hard as a man can work; not that he has been fortunate enough to have accumulated some money.

Mr. LA FOLLETTE. So far as the Senator's vote reducing the exemption is concerned, he is moving in the direction that the low-income groups will not be able to accumulate any future estate and their present standard of health and of living will be reduced.

Mr. TAFT. Obviously the two have no relation.

The question here is whether we should tax estates. In the first place, I repeat that estates are not a proper subject of emergency taxation. In the second place, this is a tax on the smaller estates and not the larger estates. Look at the comparative amendments. An estate of $10,000,000 pays practically the same under the La Follette amendment as it pays under the committee amendment. There is no difference. The increase is in the smaller estates. Under this amendment the increase is in the estates under $40,000 and estates of a hundred or two hundred thousand dollars.

Take the case of a man who perhaps has run a successful business and perhaps has saved his money. Even a Senator may save money from his salary if he is diligent enough. It is perfectly possible in a business for a man to accumulate one hundred or two hundred thousand dollars. If he dies and leaves his widow $200,000 today she may be able to get $7,000 income, perhaps $6,000 income, if she can keep it all. A considerable portion of it is taken away, however. Under this provision it is proposed that $58,000 shall be taken away from the man's family to which he has left the estate. If it is a small business—and there are many small businesses scattered through all the States, representing something of that value—a business that a man has built up all his life, to take $58,000 which is not in the business is a burden that certainly is unfair, and I think is most unwise.

So, in my opinion, the increase proposed here is neither justified as an emergency nor justified as a permanent policy. It seems to me that in the case of the smaller estates we could well leave the tax where it is, even without the increase proposed in the House provision.

Mr. GEORGE. Mr. President, will the Senator yield?

Mr. TAFT. I yield to the Senator from Georgia.

Mr. GEORGE. It is also true that when the exemption is lowered we are only taxing income. This is a tax on capital. It must be paid out of accumulated capital. It is also true that while we provide a long term within which an estate tax must be paid, it is with the utmost difficulty that the average going estate can convert itself into a cash position and pay the extremely high estate taxes that are suggested in this amendment.

Mr. TAFT. I thank the Senator.

Mr. BRIDGES. Mr. President, I should like to ask the Senator from Wisconsin, if I may, the reason for reducing on page 4 of his amendment, the exemption on life insurance. Life insurance is of very great importance to the average person in the country, and it is one way in which a person of modest means and modest cirmumstances, with a modest income, may provide for his widow or children after his death.

I wonder what is the theory of reducing the exemption on life insurance from $40,000 to $25,000. Personally, I am very much opposed to the reduction, because I feel that up to $40,000 life insurance should be almost sacred. I hope this amendment reducing the amount of life insurance exempt from taxes will be defeated.

Mr. LA FOLLETTE. Mr. President, I can explain to the Senator the theory of it. The present exemption for estates is $40,000, and the present exemption on life insurance is $40,000, the theory being that life insurance accumulated as the result of premium payments out of income is an accumulation of capital into the net estate just as if it came from dividends, rent, royaltics, or any other source.

Mr. TAFT. Mr. President, there is one thing I desire to suggest to the Senator from New Hampshire, and that is that whereas $40,000 reinvested might have brought 5 percent interest 5 years ago, today a person receiving $40,000 will not be able to get much more than 3-percent interest with any safety; so, really, the situation with regard to interest is such that the exemptions ought to be increased rather than reduced.

The PRESIDING OFFICER (Mr. KILGORE in the chair). The question is on agreeing to the amendment offered by the Senator from Wisconsin [Mr. LA FOLLETTE] in the nature of a substitute for the schedule proposed to be inserted by the committee amendment on pages 51, 52, and 53. On that amendment the yeas and nays have been demanded and ordered. The clerk will call the roll.

The Chief Clerk proceeded to call the roll.

Mr. DAVIS (when his name was called). I have a general pair with the junior Senator from Kentucky [Mr. CHANDLER]. I understand that on this question he would vote as I am about to vote. Therefore, I am at liberty to vote "nay."

Mr. HOLMAN (when his name was called). I have a general pair with the junior Senator from Tennessee [Mr. STEWART]. I am advised that if that Senator were present and voting he would vote "nay." If I were at liberty to vote I would vote "yea." I withhold my vote.

Mr. McNARY. Again referring to my pair with the senior Senator from Tennessee [Mr. MCKELLAR], who, if present would vote "nay," I withhold my vote. If I were at liberty to vote I would vote "yea."

The roll call was concluded.

Mr. TYDINGS. My colleague [Mr. RADCLIFFE] is necessarily absent. If he were present he would vote "nay."

Mr. HILL. I announce that the Senator from Washington [Mr. BONE], the Senator from Virginia [Mr. GLASS], the Senator from Iowa [Mr. GILLETTE], the Senator from North Carolina [Mr. REYNOLDS], and the Senator from New York [Mr. WAGNER] are absent from the Senate because of illness.

The Senator from Kentucky [Mr. CHANDLER] is absent on a defense-inspection tour.

The Senator from New York [Mr. MEAD], the Senator from Missouri [Mr. TRUMAN], and the Senator from Washington [Mr. WALLGREN] are engaged in holding hearings on behalf of the Committee to Investigate the National Defense Program.

The Senator from Michigan [Mr. BROWN], the Senator from New Mexico [Mr. CHAVEZ], the Senator from Utah [Mr. MURDOCK], the Senators from Tennessee [Mr. MCKELLAR and Mr. STEWART], the Senator from Florida [Mr. PEPPER], the Senator from Oklahoma [Mr. THOMAS], and the Senator from Montana [Mr. WHEELER] are necessarily absent.

Mr. AUSTIN. I announce the following general pairs:

The Senator from Indiana [Mr. WILLIS] with the Senator from New Mexico [Mr. CHAVEZ];

The Senator from Minnesota [Mr. SHIPSTEAD] with the Senator from Virginia [Mr. GLASS];

The Senator from Minnesota [Mr. BALL] with the Senator from Missouri [Mr. TRUMAN];

The Senator from South Dakota [Mr. GURNEY] with the Senator from Florida [Mr. PEPPER];

The Senator from Kansas [Mr. REED] with the Senator from Washington [Mr. WALLGREN]; and

The Senator from Massachusetts [Mr. LODGE] with the Senator from North Carolina [Mr. REYNOLDS].

The result was announced—yeas 19, nays 47, as follows:

YEAS—19

Aiken	La Follette	Russell
Bunker	Langer	Schwartz
Capper	Lee	Smathers
Clark, Idaho	Murray	Walsh
Clark, Mo.	Nye	Wiley
Downey	O'Mahoney	
Kilgore	Rosier	

NAYS—47

Adams	Danaher	McFarland
Andrews	Davis	Maloney
Austin	Eastland	O'Daniel
Bailey	Ellender	Overton
Bankhead	George	Peace
Barbour	Gerry	Smith
Barkley	Green	Spencer
Bilbo	Guffey	Taft
Brewster	Hatch	Thomas, Idaho
Bridges	Hayden	Thomas, Utah
Brooks	Herring	Tobey
Bulow	Hill	Tunnell
Burton	Hughes	Tydings
Byrd	Johnson, Colo.	Vandenberg
Caraway	Lucas	Van Nuys
Connally	McCarran	

NOT VOTING—30

Ball	Johnson, Calif.	Reynolds
Bone	Lodge	Shipstead
Brown	McKellar	Stewart
Butler	McNary	Thomas, Okla.
Chandler	Mead	Truman
Chavez	Murdock	Wagner
Gillette	Norris	Wallgren
Glass	Pepper	Wheeler
Gurney	Radcliffe	White
Holman	Reed	Willis

So Mr. LA FOLLETTE's amendment to the committee amendment was rejected.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment.

The amendment was agreed to.

The PRESIDING OFFICER. The clerk will state the next amendment of the committee passed over.

The CHIEF CLERK. On page 51, after line 21, under the heading "Title IV—Estate and Gift Taxes," it is proposed to strike out:

If the net estate is—	The tentative tax shall be—
Not over $5,000	3% of the net estate.
Over $5,000 but not over $10,000.	$150, plus 7% of excess over $5,000.
Over $10,000 but not over $20,000.	$500, plus 10% of excess over $10,000.
Over $20,000 but not over $30,000.	$1,500 plus 13% of excess over $20,000.
Over $30,000 but not over $40,000.	$2,800, plus 16% o excess over $30,000.
Over $40,000 but not over $50,000.	$4,400, plus 20% of excess over $40,000.
Over $50,000 but not over $60,000.	$6,400, plus 23% of excess over $50,000.
Over $60,000 but not over $100,000.	$8,700, plus 25% of excess over $60,000.
Over $100,000 but not over $250,000.	$18,700, plus 27% of excess over $100,000.
Over $250,000 but not over $500,000.	$59,200, plus 29% of excess over $250,000.
Over $500,000 but not over $750,000.	$131,700, plus 32% of excess over $500,000.
Over $750,000 but not over $1,000,000.	$211,700, plus 34% of excess over $750,000.
Over $1,000,000 but not over $1,250,000.	$296,700, plus 36% of excess over $1,000,000.
Over $1,250,000 but not over $1,500,000.	$386,700, plus 38% of excess over $1,250,000.
Over $1,500,000 but not over $2,000,000.	$481,700, plus 41% of excess over $1,500,000.

If the net estate is—	The tentative tax shall be—
Over $2,000,000 but not over $2,500,000.	$686,700, plus 45% of excess over $2,000,000.
Over $2,500,000 but not over $3,000,000.	$911,700, plus 48% of excess over $2,500,000.
Over $3,000,000 but not over $3,500,000.	$1,151,700, plus 51% of excess over $3,000,000.
Over $3,500,000 but not over $4,000,000.	$1,406,700, plus 54% of excess over $3,500,000.
Over $4,000,000 but not over $5,000,000.	$1,676,700, plus 58% of excess over $4,000,000.
Over $5,000,000 but not over $6,000,000.	$2,256,700, plus 61% of excess over $5,000,000.
Over $6,000,000 but not over $7,000,000.	$2,866,700, plus 64% of excess over $6,000,000.
Over $7,000,000 but not over $8,000,000.	$3,506,700, plus 66% of excess over $7,000,000.
Over $8,000,000 but not over $10,000,000.	$4,166,700, plus 69% of excess over $8,000,000.
Over $10,000,000	$5,546,700, plus 70% of excess over $10,000,000.

And insert:

If the net estate is—	The tentative tax shall be—
Not over $5,000	3% of the net estate.
Over $5,000 but not over $10,000.	$150, plus 7% of excess over $5,000.
Over $10,000 but not over $20,000.	$500, plus 11% of excess over $10,000.
Over $20,000 but not over $30,000.	$1,600, plus 14% of excess over $20,000.
Over $30,000 but not over $40,000.	$3,000, plus 18% of excess over $30,000.
Over $40,000 but not over $50,000.	$4,800, plus 22% of excess over $40,000.
Over $50,000 but not over $60,000.	$7,000, plus 25% of excess over $50,000.
Over $60,000 but not over $100,000.	$9,500, plus 28% of excess over $60,000.
Over $100,000 but not over $250,000.	$20,700, plus 30% of excess over $100,000.
Over $250,000 but not over $500,000.	$65,700, plus 32% of excess over $250,000.
Over $500,000 but not over $750,000.	$145,700, plus 35% of excess over $500,000.
Over $750,000 but not over $1,000,000.	$233,200, plus 37% of excess over $750,000.
Over $1,000,000 but not over $1,250,000.	$325,700, plus 39% of excess over $1,000,000.
Over $1,250,000 but not over $1,500,000.	$423,200, plus 42% of excess over $1,250,000.
Over $1,500,000 but not over $2,000,000.	$528,200, plus 45% of excess over $1,500,000.
Over $2,000,000 but not over $2,500,000.	$753,200, plus 49% of excess over $2,000,000.
Over $2,500,000 but not over $3,000,000.	$998,200, plus 53% of excess over $2,500,000.
Over $3,000,000 but not over $3,500,000.	$1,263,200, plus 56% of excess over $3,000,000.
Over $3,500,000 but not over $4,000,000.	$1,543,200, plus 59% of excess over $3,500,000.
Over $4,000,000 but not over $5,000,000.	$1,838,200, plus 63% of excess over $4,000,000.
Over $5,000,000 but not over $6,000,000.	$2,468,200, plus 67% of excess over $5,000,000.
Over $6,000,000 but not over $7,000,000.	$3,138,200, plus 70% of excess over $6,000,000.
Over $7,000,000 but not over $8,000,000.	$3,838,200, plus 73% of excess over $7,000,000.
Over $8,000,000 but not over $10,000,000.	$4,568,200, plus 76% of excess over $8,000,000.
Over $10,000,000	$6,088,200, plus 77% of excess over $10,000,000.

Mr. LA FOLLETTE. Mr. President, in view of the action on the amendment which I offered, the gift-tax amendment, of course, should be agreed to.

Mr. GEORGE. That is correct, the gift tax being three-fourths of the estate tax.

The PRESIDING OFFICER. The question is on agreeing to the amendment on page 51, beginning in line 21.

The amendment was agreed to.

The PRESIDING OFFICER. The clerk will state the next amendment passed over.

The CHIEF CLERK. On page 53, after the table, it is proposed to strike out:

(b) Effective date of amendment: The amendment made by subsection (a) shall be applicable only to estates of decedents dying after the date of the enactment of this act.

(c) Defense tax made permanent: Subchapter C of chapter 3 of the Internal Revenue Code is amended by striking out "and before the expiration of 5 years after such date"; by striking out in the heading of the subchapter "for 5 years" and by striking out in the heading of section 951 "for 5 years."

And insert:

(b) Defense tax repealed: Subchapter C of chapter 3 of the Internal Revenue Code is repealed.

(c) Effective date: Subsections (a) and (b) shall be effective only with respect to estates of decedents dying after the date of the enactment of this act.

Mr. GEORGE. Mr. President, this amendment merely makes the defense tax rate permanent, the tax which has been integrated with the estate and gift tax rates in the bill.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

The PRESIDING OFFICER. The clerk will state the next committee amendment passed over.

The CHIEF CLERK. In section 402, gift-tax rates, page 54, after line 11, it is proposed to strike out:

If the net gifts are—	The tax shall be—
Not over $50,000	2¼% of the net gifts.
Over $50,000 but not over $60,000.	$112.50, plus 5¼% of excess over $50,000.
Over $60,000 but not over $100,000.	$375, plus 7½% of excess over $60,000.
Over $100,000 but not over $250,000.	$1,125, plus 9¾% of excess over $100,000.
Over $250,000 but not over $500,000.	$2,100, plus 12% of excess over $250,000.
Over $500,000 but not over $750,000.	$3,300, plus 15% of excess over $500,000.
Over $750,000 but not over $1,000,000.	$4,800, plus 17¼% of excess over $750,000.
Over $1,000,000 but not over $1,250,000.	$6,525, plus 18¾% of excess over $1,000,000.
Over $1,250,000 but not over $1,500,000.	$14,025, plus 20¼% of excess over $1,250,000.
Over $1,500,000 but not over $2,000,000.	$44,400, plus 21¾% of excess over $1,500,000.
Over $2,000,000 but not over $2,500,000.	$98,775, plus 24% of excess over $2,000,000.
Over $2,500,000 but not over $3,000,000.	$158,775, plus 25½% of excess over $2,500,000.
Over $3,000,000 but not over $3,500,000.	$222,525, plus 27% of excess over $3,000,000.
Over $3,500,000 but not over $4,000,000.	$290,025, plus 28½% of excess over $3,500,000.
Over $4,000,000 but not over $5,000,000.	$361,275, plus 30¾% of excess over $4,000,000.
Over $5,000,000 but not over $6,000,000.	$515,025, plus 33¾% of excess over $5,000,000.
Over $6,000,000 but not over $7,000,000.	$683,775, plus 36% of excess over $6,000,000.
Over $7,000,000 but not over $8,000,000.	$863,775, plus 38¼% of excess over $7,000,000.
Over $8,000,000 but not over $10,000,000.	$1,055,025, plus 40½% of excess over $8,000,000.
Over $10,000,000	$1,257,525, plus 43½% of excess over $10,000,000.

And insert:

If the net gifts are—	The tax shall be—
Not over $5,000	2¼% of the net gifts.
Over $5,000 but not over $10,000.	$112.50, plus 5¼% of excess over $5,000.
Over $10,000 but not over $20,000.	$375, plus 8¼% of excess over $10,000.
Over $20,000 but not over $30,000.	$1,200, plus 10½% of excess over $20,000.
Over $30,000 but not over $40,000.	$2,250, plus 13½% of excess over $30,000.
Over $40,000 but not over $50,000.	$3,600, plus 16½% of excess over $40,000.

If the net gifts are—	The tax shall be—
Over $50,000 but not over $60,000.	$5,250, plus 18¾% of excess over $50,000.
Over $60,000 but not over $100,000.	$7,125, plus 21% of excess over $60,000.
Over $100,000 but not over $250,000.	$15,525, plus 22½% of excess over $100,000.
Over $250,000 but not over $500,000.	$49,275, plus 24% of excess over $250,000.
Over $500,000 but not over $750,000.	$109,275, plus 26¼% of excess over $500,000.
Over $750,000 but not over $1,000,000.	$174,900, plus 27¾% of excess over $750,000.
Over $1,000,000 but not over $1,250,000.	$244,275, plus 29¼% of excess over $1,000,000.
Over $1,250,000 but not over $1,500,000.	$317,400, plus 31½% of excess over $1,250,000.
Over $1,500,000 but not over $2,000,000.	$396,150, plus 33¾% of excess over $1,500,000.
Over $2,000,000 but not over $2,500,000.	$564,900, plus 36¾% of excess over $2,000,000.
Over $2,500,000 but not over $3,000,000.	$748,650, plus 39¾% of excess over $2,500,000.
Over $3,000,000 but not over $3,500,000.	$947,400, plus 42% of excess over $3,000,000.
Over $3,500,000 but not over $4,000,000.	$1,157,400, plus 44¼% of excess over $3,500,000.
Over $4,000,000 but not over $5,000,000.	$1,378,650, plus 47¼% of excess over $4,000,000.
Over $5,000,000 but not over $6,000,000.	$1,851,150, plus 50¼% of excess over $5,000,000.
Over $6,000,000 but not over $7,000,000.	$2,353,650, plus 52½% of excess over $6,000,000.
Over $7,000,000 but not over $8,000,000.	$2,878,650, plus 54¾% of excess over $7,000,000.
Over $8,000,000 but not over $10,000,000.	$3,426,150, plus 57% of excess over $8,000,000.
Over $10,000,000	$4,566,150, plus 57¾% of excess over $10,000,000.

Mr. GEORGE. Mr. President, this is simply a portion of the gift and estate tax.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

The PRESIDING OFFICER. The clerk will state the next amendment passed over.

The CHIEF CLERK. On page 56, line 1, it is proposed to strike out "Amendment" and to insert "Amendments"; on line 2 to strike out "amendment made by subsection (a)" and to insert "amendments made by this section"; and on line 6, to strike out "Amendment" and to insert "amendments."

Mr. GEORGE. That is a clerical amendment.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

The PRESIDING OFFICER. The clerk will state the next amendment passed over.

The CHIEF CLERK. On page 56, after line 10, it is proposed to strike out:

(c) Defense tax rates made permanent: Section 1001 (d) of the Internal Revenue Code is amended by striking out "1941 to 1945, both inclusive," and inserting in lieu thereof "after 1940"; and by striking out in the heading "for 1940–1945."

And after line 15, to insert:

(c) Defense tax repealed: Section 1001 (d) of the Internal Revenue Code (relating to defense tax for 5 years on gifts) is repealed.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

The PRESIDING OFFICER. The clerk will state the next amendment passed over.

Mr. GEORGE. The next amendment passed over is on page 58, and that should

go over until the rates of the admission tax are fixed.

The PRESIDING OFFICER. Without objection, the amendment will be passed over, and the clerk will state the next amendment passed over.

The CHIEF CLERK. On page 67, line 25, after the word "Rate," it is proposed to strike out:

A tax of 1 cent to reach 10 cents or fraction thereof of the amount paid for admission to any place, including admission by season ticket or subscription; except that in case the amount paid for admission is less than 10 cents, no tax shall be imposed. In the

And to insert:

A tax on the amount paid for admission to any place, including admission by season ticket or subscription, at the rates set forth in the following schedule:

If the amount charged is—	The tax shall be—
Not over 10 cents	1 cent.
Over 10 cents and not over 15 cents	2 cents.
Over 15 cents and not over 20 cents	3 cents.
Over 20 cents and not over 25 cents	4 cents.
Over 25 cents and not over 35 cents	5 cents.
Over 35 cents and not over 40 cents	6 cents.
Over 40 cents and not over 45 cents	7 cents.
Over 45 cents and not over 50 cents	8 cents.
Over 50 cents	15 percent of the amount charged; fractions of ½ cent or more shall be increased to 1 cent; smaller fractions shall be disregarded.

Mr. GEORGE rose.

Mr. LA FOLLETTE. Does the Senator from Georgia wish to speak on this amendment.

Mr. GEORGE. No.

Mr. LA FOLLETTE. This is the so-called admissions-tax admendment. It is one of the amendments which was adopted very late in the committee's proceedings, there was no opportunity for any hearing, and what it amounts to is a 50-percent increase over the admissions tax provided in the bill as it passed the House.

Senators can familiarize themselves with the rates provided in the bill as it passed the House by referring to page 67, lines 25 and following, where they will find this provision:

(1) Rate: A tax of 1 cent for each 10 cents or fraction thereof of the amount paid for admission to any place, including admission by season ticket or subscription; except that in case the amount paid for admission is less than 10 cents. no tax shall be imposed.

Then follows the committee amendment, which proposes the following rates:

If the amount charged is—	The tax shall be—
Not over 10 cents	1 cent.
Over 10 cents and not over 15 cents	2 cents.
Over 15 cents and not over 20 cents	3 cents.
Over 20 cents and not over 25 cents	4 cents.
Over 25 cents and not over 35 cents	5 cents.
Over 35 cents and not over 40 cents	6 cents.
Over 40 cents and not over 45 cents	7 cents.
Over 45 cents and not over 50 cents	8 cents.
Over 50 cents	15 percent of the amount charged; fractions of ½ cent or more shall be increased to 1 cent; smaller fractions shall be disregarded.

If it is agreeable to the Senator from Georgia, I should like to get unanimous consent that the Senate vote on the rate changes separately from the amendment below, which has to do with raising the age limit for so-called children from 12 to 18. At least it would seem to me that that would be logical. In my opinion, the question of rates has no relationship to the age at which persons under a certain age may be permitted to pay, at the reduced rate of their ticket, the tax that would be applicable at that rate.

Mr. GEORGE. Mr. President, I may say that as I understand the situation, if the committee amendment beginning in line 25, on page 67, and going down through line 4, on page 68, striking out portions of the House bill, and inserting new matter from line 5 down to line 8, should be disagreed to, then there might not be any objection to the amendment as it is written in the bill.

Mr. LA FOLLETTE. That is my position, Mr. President, and it would seem to me that there should not be any relationship.

Mr. GEORGE. I would have no right to agree to an amendment striking out these rates and coming back to what, as I understand, was the first decision made by the committee.

Mr. LA FOLLETTE. That is correct.

Mr. GEORGE. As chairman of the committee I would not have any right to do so, but I am perfectly willing for the Senate to vote on it, and vote on it at this time, because I feel that the rapid increase of 50 percent—which is what it amounts to—in the rates on admissions is out of line, and that the first decision of the committee was very much better than its final determination.

Mr. LA FOLLETTE. Mr. President, with that statement from the able chairman of the committee, who has demonstrated his great influence upon this body today as usual, so far as I am concerned, I will refrain from taking any more time of the Senate, and allow a vote to be taken immediately and dispose of this matter, because I feel that the time has not come when the Senator from Georgia is not going to be followed by a majority of the Senate.

Mr. WALSH. Mr. President, do I understand that if the Finance Committee amendment is defeated the Senator from Georgia will then offer the rates fixed originally by the committee?

Mr. LA FOLLETTE. That will not be necessary. If we reject the committee amendment, the provisions contained in the House bill will remain.

Mr. GEORGE. The rate fixed by the House is 1 cent on each 10 cents.

Mr. WALSH. I was under the impression there was a slight difference between the original House bill and the original rate fixed by the Finance Committee. Is that a fact?

Mr. GEORGE. I do not think so, except as to persons under 18 years of age, as provided by the words proposed to be stricken out and inserted in lines 9 and 10 in the House text.

Mr. WALSH. Then the purpose which we all have in mind could be accomplished by rejecting the committee amendment and permitting the House rates to be retained in the bill?

Mr. GEORGE. I think so.

Mr. WALSH. In my opinion, that is most desirable. I think this is an extreme tax which ought not to be levied. I think the increase in the House bill over the present tax is ample and sufficient, and it seems to me we are going to an unjustifiable extreme in the rates contained in the bill.

Mr. TAFT. Mr. President, whenever I agree with the distinguished Senator from Wisconsin I wish to say so. It seems to me that the increase of 15 percent is out of line with the other excise tax rates in the bill. Most of them are 10 percent. I do not see why amusements should carry any greater excise-tax rates than are fixed for other purposes. The rate in question was placed in the bill at the moment. Furthermore, I think every one should realize how the bill removes practically all the exemptions on charitable and religious shows and entertainments of different kinds. It imposes a tax on all such shows. The rate of 10 percent will be a great blow in many cases, anyway. Then to increase it to 15 percent, which is a 300-percent increase over the present rate on non-charitable shows, seems to me to be unreasonable. So I believe the committee amendment should be rejected.

The PRESIDING OFFICER (Mr. RUSSELL in the chair). The question is on agreeing to the committee amendment beginning in line 25 on page 67 and running down to line 8 on page 68.

The amendment was rejected.

The PRESIDING OFFICER. The clerk will state the next committee amendment which was passed over.

The next amendment passed over was, on page 68, line 8, before the word "case", to insert "In the."

The amendment was agreed to.

The PRESIDING OFFICER. The clerk will state the next committee amendment passed over.

The next amendment passed over was, on page 68, line 9, after the word "business", to strike out "children under twelve" and to insert "persons under eighteen."

The amendment was agreed to.

The PRESIDING OFFICER. The clerk will state the next committee amendment passed over.

The next amendment passed over was, on page 69, line 1, after the word "admitted" and the period, to strike out "Amounts paid for admission by season ticket or subscription shall be exempt only if the amount which would be charged to the holder or subscriber for a single admission is less than 10 cents", and insert:

(b) Box seats: Section 1700 (b) (1) of the Internal Revenue Code is amended by striking out "10 percent" and inserting in lieu thereof "15 percent."

(c) Sales outside box office: Section 1700 (c) (1) of the Internal Revenue Code is amended by striking out "10 percent" and inserting in lieu thereof "15 percent."

Mr. GEORGE. Mr. President, that amendment should be disagreed to in view of the action taken by the Senate on the admission tax proper.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was rejected.

The PRESIDING OFFICER. Without objection, the Senate will recur to the amendment on page 58, to strike out lines 8 to 13, inclusive, which wil be stated.

The CHIEF CLERK. On page 58, line 8, it is proposed to strike out:

(1) Box seats: Section 1700 (b) (1) is amended by striking out "10 percent" and inserting in lieu thereof "11 percent."

(2) Sales outside box office: Section 1700 (c) (1) is amended by striking out "10 percent" and inserting in lieu thereof "11 percent."

The PRESIDING OFFICER. The question is on agreeing to the committee amendment.

The amendment was rejected.

Mr. CONNALLY. Mr. President, may I ask the Senator from Georgia a question? Have all the committee amendments on page 69 been rejected?

Mr. GEORGE. We have acted only down to the language ending in line 11.

Mr. CONNALLY. It is the language which follows that I have in mind.

The PRESIDING OFFICER. The clerk will state the next committee amendment passed over.

The next committee amendment passed over was on page 69, line 12, to strike out:

(b) Termination of exemptions: Section 1701 of the Internal Revenue Code (relating to exemptions from admissions tax).

And insert:

(d) Termination of exemptions of charitable, etc., entertainments: Section 1701 (a) of the Internal Revenue Code.

The amendment was agreed to.

The PRESIDING OFFICER. The clerk will state the next committee amendment which was passed over.

The next amendment passed over was, on page 105, after the word "special", to strike out "tax of $25 per year in respect of such device, and shall pay an additional special tax of $25 per year for each additional such device so maintained or the use of which is so permitted," and insert:

tax as follows:

"(1) $10 per year in the case of a device defined in clause (1) of subsection (b);

"(2) $200 per year, in the case of a device defined in clause (2) of subsection (b); and

"(3) $10 or $200, as the case may be, for each additional device so maintained or the use of which is so permitted."

Mr. BUNKER. Mr. President, I offer an amendment, on page 105, line 7, to strike out the figures "$200" and to insert in lieu thereof "$50."

I should like to comment briefly on this amendment. A $200 tax on slot machines will not accomplish the purpose sought in this amendment. A slot machine is a mechanical device and can be fixed so that the customer playing the machine can get 15 percent, 20 percent, or even as high as 80 percent. Slot-machine gambling is legal in the State of Nevada, and where the machines are legalized the take is fixed at 15 percent. We in Nevada derive a revenue in the local subdivisions and in the State of $152 per slot machine. No person under age is permitted to play a slot machine, and they are carefully inspected so that the customers get back the legitimate percentage, or the 15 percent to which he is entitled. There is that protection provided. You could not win or lose a sum of any consequence on a slot machine in our State if you played one all day.

I say that this $200 tax on slot machines will not put them out of business in States where they are not legalized. As I understand it, we are the only State in the Nation where there is legalized gambling. There may be some pinball machines in use in other States that are legal, but slot machines are legal in Nevada. In my own county we derived last year some $88,000 from the tax on slot machines alone.

The population of Nevada is less than that of most of the larger cities in other States. I think the revenue from the tax on slot machines last year in the State of Nevada, at the rate of $152 apiece, would have netted the State about $450,000. Four hundred and fifty thousand dollars is not a small sum in comparison to the taxable wealth of a small State such as Nevada.

Mr. BARKLEY. Mr. President, will the Senator yield?

Mr. BUNKER. I yield.

Mr. BARKLEY. I think it is probably true that some of the members of the committee voted for the high rate of $200 with the view of undertaking to put so-called gambling machines out of business rather than to raise revenue. If the object were accomplished, and they were all put out of business, no revenue would be raised.

Mr. BUNKER. That is correct.

Mr. BARKLEY. I believe the Senator's amendment is to reduce the tax from $200 to $50.

Mr. BUNKER. That is correct.

Mr. BARKLEY. The tax would apply in a State where the machines are legalized, as well as in a State where they are not legalized. They are tolerated in many States where there is no legal authority for their operation. Does the Senator know what the revenue would be if his amendment were adopted, reducing the tax from $200 to $50? What revenue would be obtained from a $50 tax?

Mr. BUNKER. I cannot answer that question.

Mr. BARKLEY. Assuming that we should receive any revenue at all from the $200 rate, the amount involved is about half a million dollars, I believe. That is on the assumption that the purpose of the higher rate would not be accomplished, and that the machines would not be put out of business. I am wondering whether we would not raise as much money, from a revenue standpoint, by the $50 rate as we would raise by the $200 rate. My information is that in neither event would more than about half a million dollars be involved.

Mr. BUNKER. In the State of Nevada the $200 rate, added to the $152 which we legally collect for a slot machine, would make a tax of $352, which would eliminate about 50 percent of the machines, and therefore would eliminate about 50 percent of the revenue which we receive from such machines. It would not eliminate the vice. It would centralize the vice in certain localities.

Mr. BARKLEY. It is the contention of the Senator that if the committee amendment had any effect, it would eliminate half the machines in a State where they are legalized, and would not eliminate any of them in States where they are not legalized.

Mr. BUNKER. That is true. It would not eliminate them in the States where they are not legal.

As I say, a slot machine is a mechanical device. If a $200 tax were imposed on the machine the operator could regulate the amount paid out so that the machine would take care of the tax, and the people, rather than the operator, would be paying the tax.

Mr. CLARK of Missouri. Mr. President, will the Senator yield?

Mr. BUNKER. I yield.

Mr. CLARK of Missouri. I should like to ask the Senator from Nevada if the proposal advanced by the Senator from Kentucky is not the exact equivalent of putting a tariff-for-revenue tax on prostitution

Mr. OVERTON. Mr. President, will the Senator yield?

Mr. BUNKER. I yield.

Mr. OVERTON. I rise for the purpose of making a suggestion to the Senator from Nevada. I think the purpose he has in mind could be accomplished by amending the committee amendment by a proviso to the effect that in States where such devices are licensed a tax of $50 a year shall be levied

Mr. BARKLEY. Mr. President, I have no authority to speak for the committee, but as one member of the committee I have some doubt about the constitutionality of such a provision, because the Constitution requires that taxes shall be uniform throughout the United States. If we should levy a tax of $200, or $50, or whatever the tax may be, in a revenue bill, and then say that in a State where a local tax is levied the amount of the local tax shall be deducted from the Federal tax, we should encounter a constitutional question involving the question of uniformity.

Mr. OVERTON. There are two classifications. One is the unlicensed and unauthorized machine, and the other is the licensed machine.

Mr. BARKLEY. Personally, so far as I am individually concerned, I should rather agree to the $50 rate than to try to write into the bill a provision which would give credit in a State for the amount of the State or local tax. The Supreme Court has held that sort of provision unconstitutional in another matter anyway, so I do not believe we should be justified in agreeing to it.

Mr. McCARRAN. Mr. President, will the Senator yield?

Mr. BUNKER. I yield to my colleague.

Mr. McCARRAN. I should like to have the amendment stated.

The PRESIDING OFFICER. The amendment offered by the Senator from Nevada [Mr. BUNKER] to the committee amendment will be stated.

The CHIEF CLERK. On page 105, line 7, in the committee amendment, it is

proposed to strike out "$200" and insert in lieu thereof "$50", so as to read:

(2) $50 per year, in the case of a device defined in clause (2) of subsection (b); and

Mr. BUNKER. Mr. President, it is not my purpose to prolong the debate. My purpose is to protect the people of Nevada. In doing so I should like to invite attention to the fact that in Nevada we have a slogan, to which we live up pretty well, to the effect that Nevada is the last frontier State.

Originally, Nevada was colonized by mining men of a liberal nature. We have tried in many ways to put gambling out of existence. If slot machines were not legal in our State, it probably would be because the local officials were getting their share of the revenue. I do not say that if slot machines exist in any other State the local officials are being paid, but I know that has been the case in some instances.

Nevada receives a revenue of about $450,000 from legalized slot machines. If that revenue were cut in two a very serious hardship would result to a small State.

We have found that the best way to control gambling is to legalize it and tax it. The city receives so much, the county receives so much, and the State receives so much.

If we are after taxes, the gamblers of Nevada are as liberal and as willing to pay their share of taxes as is anyone else. We can afford to pay $200 and still operate. If we can do it, so also can the operators of machines which are not legalized. We are willing to pay $152 plus $50; and if we can pay it everybody else can pay it.

I would not want anyone to think that the gamblers in Nevada are immoral people, as may be suggested. Many of my friends are gamblers. One of them in particular is a former banker.

Mr. TOBEY. Mr. President, will the Senator yield?

Mr. BUNKER. I yield.

Mr. TOBEY. Are the two terms synonymous? Are gamblers and bankers the same thing? [Laughter.]

Mr. BUNKER. No. One of the men to whom I refer is a banker. Another is a former real-estate man. Another is a mining engineer. Many others are businessmen. In Nevada we consider gambling legal. If anyone wants to come to our State and drop a dollar or two in the slot machines we think that it is no worse than going to the Kentucky Derby and betting $5 on a horse. Many of those who play the slot machines also bet on horse races and on football and baseball games.

I maintain that the committee amendment would not accomplish the purpose of putting illegal slot machines out of business. It is the duty of the States to control slot machines. If they are not legal in any State it is up to the State government to control them and put them out of business. The proposed tax would work a serious hardship on my friends in Nevada, and I hope that my amendment will prevail.

Mr. GEORGE. Mr. President, I should like to have the amendment stated.

The PRESIDING OFFICER. The amendment offered by the Senator from Nevada to the committee amendment will be stated.

The LEGISLATIVE CLERK. On page 105, in line 7, in the committee amendment, it is proposed to strike out "$200" and insert in lieu thereof "$50."

Mr. GEORGE. Is there also an amendment in line 9?

The PRESIDING OFFICER. The Chair is informed there is not.

Mr. GEORGE. In order to be consistent, the "$200" there should be stricken out and "$50" inserted.

Mr. BUNKER. Mr. President, will the Senator yield to me?

Mr. GEORGE. I yield.

Mr. BUNKER. If it is agreeable, I will add that to my amendment.

The PRESIDING OFFICER. The Senator has a right to modify his own amendment accordingly.

Mr. GEORGE. I merely wished to inquire about the matter.

Mr. CLARK of Missouri. Mr. President, I do not wish to seem to detract in any way from the very eloquent tribute paid the gamblers of Nevada by my distinguished friend, the junior Senator from that State. I am certain that in the adoption of this amendment no member of the Finance Committee had in mind any particular reference to the gamblers of Nevada. The amendment came about—and I am very happy to claim the authorship of it—by reason of the fact that upon the recommendation of the Treasury Department the House Ways and Means Committee went into a new field of taxation, that is to say, the taxation of slot machines, and proposed a levy of a flat tax of $25 a year on all classes of slot machines, including the little pinball machines into the slot of which a man puts a nickel without any hope of recompense, without any premium, but merely to try his skill on such a machine, to see how many balls he can put past the various pins. A tax was also imposed on the various machines with which a man tries to play a baseball game, a football game, or some other kind of game, without any gambling element connected with it. But at the same rate the Ways and Means Committee included the so-called one-armed bandits, which are notoriously a racket. I refer to the machines with the lemons, plums, oranges, and what-not, which are notoriously gambling machines. Such machines were put in the same category in the tax bill.

When the bill came before the Finance Committee of the Senate it did not seem to some of us to be fair for the Federal Government to tax at anything like the same rate machines purely for the purpose of amusement and diversion, including all sorts of slot machines, into which a man drops his nickel simply for the pleasure of seeing what he can do. I have not mentioned by any means all of them. There are such machines at Glen Echo, just outside of Washington. There are little toy electric ranges, on which a man may try his skill as a shot, for a nickel. He knows he will not get back any prize; he is willing to pay a nickel for the pleasure of trying his skill as a shot.

But in the same category were also included the "one-armed bandits," which have been a racket in every State of the Union except the very few States in which they have been legalized—in my opinion, to the disgrace of those States.

Mr. President, it seemed to me and to a majority of the members of the Finance Committee that it was a disgrace to put all slot machines in the same class. Therefore we reduced the tax on the innocent slot machines, the ones which do not involve any gambling interest, from $25 to $10.

Then, Mr. President, I am proud to say that on my motion the tax on the "one-armed bandits" was increased from $25 to $200. That was not my original proposal. My original amendment was to increase the tax on gambling machines—in my opinion, the most vicious racket in the United States—to $1,000 a machine. My purpose in offering that amendment was to put such gambling machines out of business. I have no hesitation whatever in saying that. I think that the amendment which I offered was a proper amendment.

Mr. BAILEY. Mr. President, will the Senator yield to me?

Mr. CLARK of Missouri. I yield.

Mr. BAILEY. I am very much interested in what the distinguished Senator has to say. I fully agree with him as to his description of such machines, and I would agree generally with anyone in denouncing gambling. However, I wish to ask a question. The Senator states that the sole purpose of his amendment——

Mr. CLARK of Missouri. My original amendment provided a tax of $1,000 a year on each such machine.

Mr. BAILEY. Yes.

Mr. CLARK of Missouri. The Senator from Nevada has convinced me that in his State the operation of such machines is not a racket.

Mr. BAILEY. Perhaps so. The purpose of the amendment is to bring about the prohibition of gambling through the "one-armed bandits," or to bring an end to robbery through the "one-armed bandits."

If that is good policy we should proceed to the whole program of prohibition and police regulation by way of taxation. We should use the taxing power to prohibit the manufacture and sale of liquors, or to prohibit the operation of pari-mutuel machines at the race tracks, on the ground that race-track gambling is not to be approved.

Agreeing that gambling is bad, agreeing that it is considered immoral and generally injurious, the question which is presented to me is this: How far should the Congress undertake to assume the police power of the States by way of the effect of a revenue act? How far should we use the power which is given us to raise revenue for the support of the Government, to pay the public debt, and to provide for the common defense and the general welfare? Those are the objectives, stated in the Constitution, of the taxing power. How far shall we extend the use of the taxing power into the vast region of the police power? That strikes

me as a very serious question for all of us. It may be easy to vote for a tax of $200 or $1,000; but how shall we vote when the pressure is brought to bear and a bill is introduced to put a tax of $200 upon the sale of a quart of whisky? If we can do one, we can do the other. If we go into that field we will go into the other. I am just showing——

Mr. CLARK of Missouri. Mr. President——

Mr. BAILEY. I will yield in a moment.

Mr. CLARK of Missouri. I have the floor myself.

Mr. BAILEY. I beg the Senator's pardon.

Mr. CLARK of Missouri. I am glad to have the Senator speak at any time, either in my time or in his own time, but, if he is going to make a prolonged speech, I would much rather have him make it in his own time, because I have a few observations I desire to make before I take my seat.

Mr. BAILEY. I apologize to the Senator.

Mr. CLARK of Missouri. I am always glad to hear the Senator and glad to have him speak in my time.

Mr. BAILEY. I went on to speak because I thought the Senator had taken his seat.

Mr. CLARK of Missouri. I took my seat because I thought the Senator from North Carolina was more or less strung out, and I did have a few remarks I wanted to make myself.

Mr. BAILEY. I very gladly accept the situation, and recognize that this distinguished expert on parliamentary practice still had the floor notwithstanding he was sitting down.

Mr. CLARK of Missouri. Then I will resume my seat and let the Senator continue.

The PRESIDING OFFICER. The question is on the amendment offered by the Senator from Nevada [Mr. BUNKER] to the committee amendment.

Mr. McCARRAN. Mr. President, the power to tax is the power to destroy. That is an old adage; it is so old that it has become commonplace. The power to tax is the power to destroy. My good friend the able Senator from Missouri very appropriately says that he would destroy. In other words, he proposes to destroy by the taxing power that which a sovereign State sees fit to regulate under its police power. The able Senator from Missouri, the descendant of a great family that always recognized State rights, is forgetting that splendid doctrine, the right of the great sovereign State of Missouri to control affairs within its borders; its right, for instance, to control gambling within its borders.

Mr. CLARK of Missouri. Mr. President, will the Senator yield?

The PRESIDING OFFICER. Does the Senator from Nevada yield to the Senator from Missouri?

Mr. McCARRAN. I yield.

Mr. CLARK of Missouri. Does the Senator think that the Federal Government, if it saw fit, would have the right to put an excise tax on divorces?

Mr. McCARRAN. On what?

Mr. CLARK of Missouri. On divorces?

Mr. McCARRAN. If the State of Missouri wants to do that——

Mr. CLARK of Missouri. No; I am talking about the Federal Government. I was thinking about transferring this particular tax from slot machines to divorces.

Mr. McCARRAN. Most certainly not, because when you are dealing with that you are dealing with something that pertains to the fundamental law of the sovereign State. Undoubtedly the able Senator from Missouri was pointing that question to me because I happen in part to represent a State where it is reputed divorces are rather liberal; but that was written into the Constitution of Nevada with the acquiescence of the Congress of the United States when the State became a sovereign in the sisterhood of States. It was not written in after the State became a State; it was written into the constitution, it was written into the law which the Congress of the United States adopted when my State was admitted to the Union.

If you did not like it then, you should have repudiated it, but you liked it then——

Mr. CLARK of Missouri. I hope the Senator will not shake his gory locks at me——

Mr. McCARRAN. You thought it was all right because you wanted three more votes to save a Nation that was then very much in need of saving.

I did not understand the statement the able Senator from Missouri last made.

Mr. CLARK of Missouri. I said I hoped the Senator would not shake his gory locks at me because I was not here then.

Mr. McCARRAN. Of course the Senator from Missouri was not here because he was not born then; he is still young in experience, and I hope he will remain young in all things. However, he made a very insulting remark about my State just a moment ago when he referred to prostitution. We do not permit prostitution in the Battle Born State; we regulate it; but some other States permit it and do not even regulate it.

Mr. CLARK of Missouri. Mr. President, will the Senator yield?

Mr. McCARRAN. Yes; I yield.

Mr. CLARK of Missouri. I certainly had no reference to the State of Nevada in my reference to prostitution.

Mr. McCARRAN. The Senator's remark made to my colleague was insulting, and I resent it for one, because I was born in that State; and the Senator cannot make an insulting remark against that State on the floor of the Senate and not have me resent it.

Mr. CLARK of Missouri. If the Senator will permit me—will the Senator yield?

Mr. McCARRAN. Yes; I yield.

Mr. CLARK of Missouri. I certainly had no reference at all to the State of Nevada, or any other State, in my reference to prostitution. The Senator from Kentucky rose and said he felt there ought to be a fair revenue tax on slot machines.

Mr. McCARRAN. And what was the Senator's remark about prostitution?

Mr. CLARK of Missouri. I said that was very closely equivalent to a suggestion for a fair revenue tax on prostitution. I did not single out the State of Nevada; I think it is a rule of universal application.

Mr. McCARRAN. I am very glad to have the Senator retract his remarks.

Mr. CLARK of Missouri. I do not retract any remark I made. The Senator from Nevada is undertaking to put an entirely erroneous construction on what I said, and nobody knows it better than the Senator from Nevada.

Mr. McCARRAN. No; I am not putting any misconstruction on the Senator's remarks at all. I am simply resenting an insulting remark he made against a sovereign State; and I shall continue to resent it on the floor of the Senate so long as the Senator from Missouri continues to apply it.

Mr. CLARK of Missouri. Mr. President, will the Senator yield?

The PRESIDING OFFICER. Does the Senator from Nevada yield further to the Senator from Missouri?

Mr. McCARRAN. I yield for a question.

Mr. CLARK of Missouri. Let me say that I had no idea whatever of applying that remark to the State of Nevada, or any other State, but, if the Senator wants to take it to his heart, he is perfectly at liberty to do so.

Mr. McCARRAN. I will take anything to my heart that applies to my State. The remark does not apply to my State except as the Senator intended it to apply.

Mr. CLARK of Missouri. Mr. President, will the Senator permit me——

Mr. McCARRAN. I yield.

Mr. CLARK of Missouri. I have already said that what I said had no particular application to any particular State.

Mr. McCARRAN. Very well.

Mr. CLARK of Missouri. I was talking about the general principle.

Mr. McCARRAN. Very well.

Mr. CLARK of Missouri. If the Senator wishes to wear the shoe, he is entirely at liberty to do so.

Mr. McCARRAN. The Senator from Nevada does not wear the shoe any more than does the Senator from Missouri.

Mr. CLARK of Missouri. I am sure of that.

Mr. McCARRAN. I hope the Senator from Missouri does not wear that shoe.

Mr. CLARK of Missouri. And I hope the Senator from Nevada does not. [Laughter.]

Mr. McCARRAN. Mr. President, now regarding the matter of taxing something out of existence, it seems to me that if the policy of the able Senator from Missouri is as he stated it to be—namely, that in the Committee on Finance he proposed the amendment providing a tax of $200 in order to put slot machines out of business, it might be well to have an increased tax on many other things so that they might all be put out of business. Would not that be well? Will the Senator agree with me that we might regulate or destroy many things by such a method of taxation?

Mr. CLARK of Missouri. Mr. President, if the Senator is asking me the question——

Mr. McCARRAN. Yes.

Mr. CLARK of Missouri. Let me say to him that, of course, it has always been acknowledged on every hand by everyone who ever had the slightest conception of the theory of taxation that the power to tax involves the power to destroy; there is no question about that; it has always been true. As I said awhile ago, when I temporarily had the floor before the Senator from North Carolina took it away from me——

Mr. McCARRAN. I do not want to get into that controversy.

Mr. CLARK of Missouri. I understand that. I stated that this is a new principle of taxation; that, so far as I am aware, these things have never been taxable. Now, we find in a House bill a classification taxing ordinary amusements. Slot machines are in the same category as these "one-armed bandits," and it seems to me that there ought to be some differentiation made. I think that amusement machines are a fair subject of revenue by the Government, but I do not think that these gambling machines are a fair avenue of revenue for the Government any more than I think a tax on prostitution would be.

Mr. McCARREN. Does the Senator think that amusement machines render less revenue to the owner of the machine than a machine for coins?

Mr. CLARK of Missouri. No, I do not think either one of them represent probably much more revenue than a roulette wheel or something of that sort. I do not think it is fair, I do not think it is moral, I do not think it is proper for the Government of the United States to use the principle of deriving revenue from these "one-armed bandits" and gambling machines, machines that rob children, machines on which it is impossible to get anything like an even break.

Mr. McCARRAN. The Senator seems to distinguish between amusement machines and machines for coins.

Mr. CLARK of Missouri. I certainly do distinguish between amusement machines and gambling devices.

Mr. McCARRAN. Very well. An amusement machine is the thing that attracts the child. It attracts the unwary. There is no return whatever from such a machine. There is not even one chance in a million of a return, because there is no return. Why not put them all out of business if it is desired to put one out of business?

Mr. CLARK of Missouri. Mr. President, I shall be glad to answer in my own time, if the Senator will permit me. That has not been the experience throughout the country. It is the prospect of return that lures children who have been sent to the grocery store with money to buy the family groceries. Almost universally in the lowest-income brackets the poorest people send children to the grocery store to buy groceries, and they are attracted by the prospect of return from these—two lemons or two oranges, or two prunes, or whatever they may be.

Mr. McCARRAN. How about two horses?

Mr. CLARK of Missouri. So far as I am concerned, I am perfectly willing to legislate on that subject, too.

Mr. McCARRAN. But the Senator does not do so by this amendment.

Mr. CLARK of Missouri. This amendment has to do with a House provision, I will say to the Senator from Nevada. The House provision proposes to raise the same rate of revenue from "one-arm bandits" as from the little, innocent pinball machines.

Mr. ADAMS. Mr. President, will the Senator from Nevada yield?

The PRESIDING OFFICER. Does the Senator from Nevada yield to the Senator from Colorado?

Mr. McCARRAN. For a question; yes.

Mr. ADAMS. I desire to ask a question as to a distinction which is in my mind. The Senator opened his remarks by saying that the power to tax is the power to destroy. That, of course, has been said a thousand or ten thousand times.

Mr. McCARRAN. More or less.

Mr. ADAMS. I am wondering, however, if that is applicable to an excise tax. We are dealing now with excise taxes, which are taxes levied upon the doing of something. The question is whether or not the power to tax the doing of something involves the right to prevent it. That is, I am wondering if we have not reached the point as to which the courts have also said that under the grant of the power to regulate which happens in the granting of powers to cities—you cannot destroy or prohibit; and I am wondering if the Senator is sure of his ground in saying that under the power to levy excise taxes you can destroy?

Mr. McCARRAN. I am absolutely sure of it. You can destroy by any form of tax you may levy. There is no question about that.

Mr. ADAMS. And if, on the record of the legislative body, it should appear that the purpose of the levy was to destroy, what then?

Mr. McCARRAN. It would not make any difference about the purpose, if it was done and the result followed.

Mr. ADAMS. I merely wanted to indicate a doubt in my mind as to that.

Mr. McCARRAN. The question is the result, not the method used to bring about the result.

Mr. ADAMS. I have serious question as to the legal right of the Congress to destroy something under the guise of an excise tax.

Mr. McCARRAN. The Senator may question the right of Congress, but Congress does not question its own right when it votes to do a thing. It does it. The court passes on the right of Congress.

Mr. ADAMS. The courts used to do it.

Mr. McCARRAN. That is another avenue of government.

Mr. ADAMS. That was a former practice.

Mr. McCARRAN. It was a former practice, and we had some reliance on it in the past, and I should like to have reliance on it for the future.

Mr. SMITH and Mr. BARKLEY addressed the Chair.

The PRESIDING OFFICER. Does the Senator from Nevada yield; and if so, to whom?

Mr. McCARRAN. I yield first to the Senator from South Carolina.

Mr. SMITH. Mr. President, I think the Senator from North Carolina has raised the most important question that can occur in connection with this bill. The power reposed in the Federal Government is that of raising revenue. I do not concede that it has the power to tax out of existence anything within a sovereign State. We dare not go beyond the matter of obtaining revenue. If the object or the result is to destroy, we have gone beyond the power delegated to us.

Mr. McCARRAN. Let me say to the Senator from South Carolina that I am taking the remarks of the author of the amendment as an impetus for my statement. He said he offered the amendment to put these machines out of business.

Mr. CLARK of Missouri. Mr. President, will the Senator yield at that point?

Mr. McCARRAN. Yes; although I have already yielded to the Senator from South Carolina.

Mr. CLARK of Missouri. The Senator from Nevada has the floor, and I am asking him to yield.

I am frank to say that my purpose in offering in the Finance Committee the amendment imposing a tax of $1,000 on slot machines was to make the rate absolutely prohibitive, and put these "one-armed bandits" out of business. That amendment was not adopted by the Finance Committee. The amount was cut down to $200 a machine; and I am advised by the junior Senator from Nevada [Mr. BUNKER] that that will not put the slot machines in Nevada out of business, but will impose a burden on them.

Let me ask the junior Senator from Nevada if I have correctly repeated what I was told by him.

Mr. BUNKER. Mr. President, I did not hear the question of the Senator.

Mr. CLARK of Missouri. I was advised by the junior Senator from Nevada yesterday that the $200 rate would not put the slot machines in the State of Nevada out of business, but would rather concentrate them, and would put many individuals out of business. Is that correct?

Mr. BUNKER. If my colleague will yield in order that I may answer the Senator's question——

The PRESIDING OFFICER. Does the senior Senator from Nevada yield to his colleague?

Mr. McCARRAN. Yes; I yield.

Mr. BUNKER. I will say that it would put about 50 percent of them out of business, and would concentrate them, but would not overcome the practice of playing slot machines.

Mr. CLARK of Missouri. Then, according to the Senator from Nevada, it does not carry out my original purpose in offering the amendment imposing the $1,000 tax, of putting them out of business; but it would put them out of business in Missouri. It would put them out of business in Ohio. It would put them out of business in the great majority of the States where slot machines have been outlawed by law as being a very vicious racket. Therefore, Mr. President, I reassert that the criticisms of the Senator from South Carolina are not well taken.

Mr. McCARRAN. Mr. President, let us clear the atmosphere for a moment. I think I have the floor.

The Senator from Kentucky [Mr. BARKLEY] asked me to yield a moment ago. I now yield to him.

Mr. BARKLEY. Mr. President, I wanted to call attention to the fact that when the bill came from the House it placed a straight $25 tax on all these various machines. They have been defined in subsection (b) in the middle of page 105; and, according to those definitions, the Senate committee attempted to classify the tax; but it is difficult to understand from the definition that there is really very little difference between the two categories of these machines.

The definition, which we have not changed in the bill, is as follows, if the Senator will allow me to read it:

As used in this part, the term "coin-operated amusement and gaming devices" means (1) so-called pin-ball and other similar amusement machines, operated by means of the insertion of a coin, token, or similar object, and (2) so-called slot machines which operate by means of insertion of a coin, token, or similar object and which, by application of the element of chance, may deliver, or entitle the person playing or operating the machine to receive, cash, premiums, merchandise, or tokens.

I am not very familiar with the use of these two different sorts of amusement or gaming devices, but I understand that even in the first category, when a coin is inserted, the person inserting it is supposed to get something. Is that true?

Mr. McCARRAN. I do not know what the first category is.

Mr. BARKLEY. The first category is so-called pinball, and other similar amusement machines, operated by means of the insertion of a coin, token, or similar object. In other words, it is necessary to put a coin in both of them in order to operate them.

Mr. McCARRAN. That is correct.

Mr. CLARK of Missouri. If the Senator will take the trouble to read the definition——

Mr. BARKLEY. I have just read it.

Mr. CLARK of Missouri. I suggest that the Senator read it again. He read it, but apparently he did not understand it.

Mr. BARKLEY. I will yield to the Senator from Missouri, the expert on slot machines.

Mr. CLARK of Missouri. The Senator from Nevada has the floor.

The PRESIDING OFFICER. Does the Senator from Nevada yield to the Senator from Missouri?

Mr. McCARRAN. If the Senator from Missouri is an expert on slot machines, I yield for his explanation.

Mr. CLARK of Missouri. The definition is perfectly plain. In lines 5 and 6 is this provision:

(1) $10 per year in the case of a device defined in clause (1) of subsection (b);

Subsection (b) reads in part:

Definition: As used in this part, the term "coin-operated amusement and gaming devices" means (1) so-called pin-ball and other similar amusement machines, operated by means of the insertion of a coin, token, or similar object.

Referring now to line 17:

(2) so-called slot machines which operate by means of insertion of a coin, token, or similar object and which, by application of the element of chance, may deliver, or entitle the person playing or operating the machine to receive cash, premiums, merchandise, or tokens.

Mr. President, clause 2 of subparagraph (b) certainly takes out from the operation of clause (1) any machine which returns any sort of a premium, and that was the intention of the amendment, and it was the intention of the committee in adopting it.

Mr. BARKLEY. Mr. President, let me ask the Senator a question.

Mr. CLARK of Missouri. I shall be glad to answer, if the Senator from Nevada will yield.

Mr. McCARRAN. I yield.

Mr. BARKLEY. It refers to "a coin-operated amusement or gaming device," and under clause No. 1 it is still necessary to put in a coin in order to operate the machine.

Mr. CLARK of Missouri. There is no question about that.

Mr. BARKLEY. What does one get for the coin?

Mr. CLARK of Missouri. He does not get anything except the pleasure of playing the game.

Mr. BARKLEY. He has the pleasure of putting the coin in without the chance of getting anything back?

Mr. CLARK of Missouri. Yes.

Mr. BARKLEY. Under clause No. 2 there is a chance to get something back. That is the difference?

Mr. CLARK of Missouri. That is the difference between any sort of an ordinary amusement, for instance, riding on a chute-the-chute and playing the roulette wheel. The Senator has stated the difference just as well as it could be stated.

Mr. BARKLEY. In the case of the roulette wheel, I do not think there is a chance of getting anything back.

Mr. CLARK of Missouri. Nor do I, but very few people play the roulette wheel without the hope of getting something back. The Senator from Kentucky has precisely stated the difference between amusement and gambling, as well as it could possibly be stated by a corps of experts after months of testimony.

Mr. McCARRAN. Mr. President, I think the colloquy between my able colleagues has cleared up the whole situation. The fact of the matter is that no one is ever sure of getting anything back from a gambling machine. There are some honest machines which tell frankly that one will not get anything back, except the chance of seeing a couple of balls roll around, or a couple of horses race, or something of the kind. There are others which give one the allurement that he may get something back; and he sometimes does. That is true of mechanical gambling all the time. There is only one honest game in the world, and that is poker; and I do not play that. The Senator from Missouri is an expert in that, I understand. At least, I hope he is. [Laughter.]

Mr. CLARK of Missouri. If the Senator will yield, I am so poor a poker player that I doubt that I have played the game as lately as has the Senator from Nevada. I love the game, but I am very unsuccessful at it, and I retired many years ago.

Mr. McCARRAN. We are both unsuccessful. I quit it some time ago.

Let us go back to the fundamental principle involved here, which to my mind is more important, based on the statement of the able Senator from Missouri, than the colloquy which has taken place, and which, in my judgment, was amplified by the statement of the able Senator from North Carolina; that is, that if we go off on a road to destroy something by taxation, if we go off on one road of destruction in that way, it will be but a short time before we will go off on many other and wider roads, and eventually the method of destruction will be taxation altogether. To my mind that is not a proper course to pursue in its initial stages.

Mr. CLARK of Missouri. Mr. President, will the Senator from Nevada yield?

Mr. McCARRAN. I yield.

Mr. CLARK of Missouri. If the Senator is under any misapprehension that this is any initial departure, what does he have to say about the absolutely prohibitive tax which has been imposed for many years on narcotics by the United States Government, narcotics which are forbidden by law, but on which a very heavy supertax has been imposed? What does the Senator have to say about the tax on oleomargarine, for instance, which was deliberately introduced for the purpose of making the production of oleomargarine very burdensome? What does he say about the many other such taxes? There is no departure. The Senator may argue as much as he pleases, and very profoundly, about the wisdom of the particular amendment, but he certainly should not say it is a departure from the previous tax policy of the Government.

Mr. McCARRAN. In my judgment, regulation is one thing and destruction is another. Regulation reaches the point of saturation after a time, and destruction commences where regulation leaves off. That may be true as to some of the things mentioned by the able Senator from Missouri. But, regardless of that, it seems to me that the Senator from Missouri has offered the greatest argument in favor of the amendment of my colleague; in other words, he has said that his aim and object was to destroy. It might be that some of us were entirely in favor of destroying certain things, but we say that it is for the sovereign States, as for instance the sovereign State of Missouri, to put out of business certain things which it does not want to exist; it is for the sovereign State of Nevada to put out of existence certain things which it does not want to exist. But if the community constituting the Commonwealth sees fit to regulate those things, it should have the right to regulate, and I shall stand here as long as I have breath in favor of the rights of the sovereign States. I stated at the beginning that I was a little surprised at the attitude of the able Senator from Missouri, because those who have preceded him, bearing his renowned and splendid name, have always advocated State rights, as I have advocated them, and as I hope we may more vehemently advocate them in the future.

Several Senators addressed the Chair.

The PRESIDING OFFICER. The Senator from Missouri is recognized.

Mr. BARKLEY. Mr. President, will the Senator from Missouri yield to me to ask a question of the Senator from Nevada?

Mr. CLARK of Missouri. I yield.

Mr. BARKLEY. I should like to get the Senator's reaction to a thought which has been running through my mind. If this is a tax intended to destroy the operation of these machines, and if we may assume that all the other 47 States, aside from Nevada, have made their operation illegal, does the amendment, originated for that purpose, assume that the other 47 States either have not sufficient penalties against the operation of the machines, or are not enforcing the laws which they have enacted?

In that connection—and it is associated with the idea suggested by the Senator from North Carolina—is it within the bounds of reasonable propriety in a tax bill of this sort for us to attempt to supplement the laws of the States which outlaw these things by putting a prohibitive tax on them, either on the theory that their laws are not sufficient or that the enforcement is lax?

Mr. McCARRAN. It seems to me that the question the Senator propounds, if I grasp it, answers itself—that the Federal Government should not attempt to enforce the local laws of the respective States.

Mr. BARKLEY. It has been running through my mind—and I say this as a member of the committee which adopted the amendment—that to adopt such an amendment merely as a penalty presupposes that the States have been lax in their enforcement or that their laws are not sufficiently rigid.

Mr. McCARRAN. The Senator might go further and say that Congress, representing the whole sisterhood of States, does not approve of the laws of a particular State, which to my mind would be erroneous to begin with.

Mr. BARKLEY. I did not want to detain the Senator longer, but it occurred to me that, assuming that this is purely a revenue matter is one thing, assuming that it is a punitive provision is another thing. If it is to be regarded as punitive simply through a high rate which will destroy, it seems to me we have no justification for assuming that attitude unless we have knowledge that the States have fallen down in the performance of their duty.

Mr. McCARRAN. That is correct.

Mr. BARKLEY. Either in the enactment of the laws or in their enforcement.

Mr. McCARRAN. I think the Senator from Kentucky analyzes the situation correctly.

Mr. CLARK of Missouri. Mr. President, inasmuch as the Senator from North Carolina saw fit to inject half his speech into the bowels of my remarks, I am perfectly willing for him to continue his speech, if it can be understood that I have not been recognized a second time. In other words, the Senator from North Carolina interrupted me in the middle of my speech and made half his speech, and is now claiming the floor for recognition. I should be glad to have the Senator from North Carolina conclude his speech if it can be understood that I can be recognized at the conclusion of the Senator's speech.

The PRESIDING OFFICER. That is a matter over which the Chair has no control.

Mr. CLARK of Missouri. I merely wanted to give notice that in yielding at this time I am not undertaking to make my second speech of the day.

The PRESIDING OFFICER. The Chair doubts very much whether any Senator would raise such a point of order against the Senator from Missouri.

Mr. BAILEY. I thank the Senator for his gracious courtesy, and deeply regret that the force of my remarks reached the wrong part of his anatomy. I had intended them for his brains, and not for his bowels. [Laughter.]

Mr. President, I am not concerned about the immediate question; I am concerned about the use to which we put the taxing power which is vested in us. But I wish to make a distinction. We can impose penalties on the shipment and transportation of articles in interstate commerce, and we have done so, but they are penalties, and are not taxes. We tried that out under the farm control bill. The first bill undertook to impose taxes. The more recent bill imposed penalties, and very decidedly did so. The narcotics act, to which reference has been made, is a criminal act, and draws its power from the fact that narcotics are imports from foreign countries, and from the further fact that we enacted criminal laws forbidding their administration except under very unusual circumstances and under the directions of a doctor.

The oleomargarine tax was in the nature of a penalty upon the shipments of oleomargarine in competition with butter in interstate commerce.

But when we move out of the region of penalties under our plenary powers under the interstate commerce clause, and into taxation under our special powers as set out in the list of the powers of the Congress in the first article of the Constitution——

Mr. SMITH. Mr. President, will the Senator yield?

Mr. BAILEY. I yield.

Mr. SMITH. I ask the Senator if the special tax on oleomargarine does not apply to the States where it is produced and sold, without any question of transportation whatever?

Mr. BAILEY. It probably does.

Mr. CLARK of Missouri. Mr. President, will the Senator yield?

Mr. BAILEY. I yield.

Mr. CLARK of Missouri. Of course, the oleomargarine tax is not a use tax. The proposal in the House bill, and the proposals in the Senate bill are for a use tax. The Senator will agree to that, will he not?

Mr. BAILEY. Yes.

Mr. CLARK of Missouri. Let me ask the Senator another question. Where does the Senator say that the power to tax ends? Does it end at $50 or $60 or $70? There was a tax of $25 in the House bill. The Senator says we have no constitutional power to levy a $200 tax. Does the Senator say that a tax of $60 would be good, or a tax of $70 or $150 or $160 or $170 or $179.50? Where does the Senator stop?

Mr. BAILEY. Mr. President, the power ends when the object of the taxing act ceases to be revenue and becomes prohibition, when it ceases to be exercised in support of the Government and becomes the means of exercising the police power.

Mr. CLARK of Missouri. How does the Senator determine that point? The junior Senator from Nevada [Mr. BUNKER] says that $200 is not prohibitive in Nevada.

Mr. BAILEY. Mr. President, I will not debate that question. I do not know about it. But I know what the Senator said, and I was very careful not to rise until my distinguished friend reached the point where he was saying that it was prohibitive, and its intention was to be prohibitive. I took great pains not to rise until that point was reached.

Mr. CLARK of Missouri. That was my intention, but I will say that my intention was not carried out in the provision reported to the Senate by the Finance Committee.

Mr. BAILEY. Now to proceed with the argument, this is why I am concerned: If we do not use the taxing power strictly for the purposes for which it was vested in us, the raising of revenue to support the Government, we will open a thousand doors through which every enemy of the Republic will march without challenge.

I shall not go through the long list, but I will mention one, and I do not think anyone who hears me today will ever forget it. If Congress uses the taxing power for other purposes than revenue, I will establish communism in the United States whenever the people care to have it, without a change in the Constitution, without a decision by the Supreme Court, and only by the action of the Congress of the United States.

How would I do that? It would be very simple. When the revenue act should come over from the House I would introduce an amendment providing that all of any man's income in excess of the average income should be taken and placed in the Treasury, and that it should be distributed in the form of pensions or by the W. P. A., or by way of benefits or what not, and I would have then a community of income in the United States. All incomes would be equal, and the ownership of property would be of no significance whatsoever. That is just where we get when we depart from the very wise limitations imposed upon us in the matter of taxation.

Mr. President, I have thought that there were those in the United States who were disregarding these limitations deliberately with a view to accomplishing the end which I have described, and that there were millions of others who were innocently following them.

Now, what is wrong with that? If you want to open the doors in this country to the averaging of incomes and the establishing of a community of income—and that would mean community of property—then strike down the barriers which heretofore have arrested that

process, have your elections, give way to your agitation in this country, and invite the have-nots to raid the haves, and I will give you your communism.

Mr. President, I am not a friend of the "reds." They are more numerous than I could wish, and they are in higher and holier places than I could wish, but I am not a friend of them. When the "red" tells me what he is driving at I am not afraid. When the infernal bacteria of communism are brought forth in the Senate—innocently, of course—and when we undertake to inoculate this body and our tax bill with the germs which inevitably would produce the communistic disease, then I do fear. We open the door; we destroy the great barrier between us and the Communists; and we assert the right of the Congress to strike down the Republic and create a soviet.

It may seem that I am speaking the language of exaggeration. I begin with a very small matter, but that very small matter, the abuse of the taxing power, is the little rift in the lute which by and by makes all the music mute. If we set this thing going today, tomorrow some other man will wish to correct some other evil, and the cause will be very worthy. We shall say, "Why not?" The next day some other man will say, "The taxing power is a great power, and there are many poor people in our land. Why not use the taxing power to equalize?" It will be said, "Here are men who are rich. We do not like so many men in this country to be rich when so many are very poor. Let us use the taxing power."

We shall not be raising revenue. We shall be equalizing income and proposing a glorious equality in America. We shall say, "We do not intend that one man shall have more power than another. We do not intend that one man shall have a better chance than another. We do not intend that one man shall have more money than another, because money is power, and this is the land of opportunity, of equality of opportunity, and equality under the law."

We would not be raising the red flag of communism. We would be raising the white flag of equality. We would be raising the black flag of destruction of the Constitution. Under those two flags the Communist would be invited to come in at will with his red flag.

Mr. President, we have much to go through with in the days ahead of us—much more, I imagine, than most of us dream. I do not think that the days of great hardship are distant. We shall face very great taxes—taxes of $13,000,000,000 annually. We shall face direct taxes, indirect taxes, capital levies, manufacturer's sales taxes, and retail sales taxes. They will be followed by priorities, quotas, cards, and allowances. They will be followed by price fixing. All those things will be followed by a total effort, a total sacrifice, and, unless we are very fortunate, total war. After that there will be the aftermath of a country that once was rich and happy—I hope victorious, but, at any rate, in deep distress and overwhelmed by poverty. Agriculture will be disrupted, labor misled and disrupted, industry prostrated and disrupted, with all the concomitants not only of unrest but of upheaval and revolution.

That is a bad picture, but it is well within the prospects. Where is our hope in view of the prospects? My hope is in the Constitution and the Bill of Rights.

Mr. SMITH. They are obsolete.

Mr. BAILEY. If they are obsolete, so is hope.

Mr. SMITH. I know that.

Mr. BAILEY. The Bill of Rights is not obsolete. The millions who never read it on the printed page have it written upon their hearts. Trample upon their rights and you will find that the Bill of Rights is written in blood. It cannot be erased.

As to the Constitution, the Supreme Court has transferred the keeping of the Constitution to the Congress. I say it respectfully. I do not say it by way of complaint. The Supreme Court has practically said that we are the judges of our constitutional powers, and that the Court will not interfere. It has great respect for us, and great trust in us. We might as well have the Constitution in the keeping of a good Congress as in that of the present Supreme Court.

Mr. SMITH. The Senator is correct. I do not object.

Mr. BAILEY. My concern is in the light of what is today; in the light of the events swiftly coming down upon us—priorities, price fixing, regimentation, quotas, and totalitarian efforts, to be followed by victory plus impoverishment, at best; by disruption, depression, and a long struggle to recover, at best.

There are good Christians in our land who in those circumstances will fall upon their knees and pray to the God of nations. Well they may. I would not deter them. But we must do more than that. We must preserve the covenant of the Constitution, the covenant between the people and the Government which they created, the covenant which the people established to protect themselves against the Government, which they intended should serve them and not destroy them.

I have often taken the oath to support, maintain, and defend the Constitution. I took it when I first voted, and I meant it. I took it twice yonder at the desk, and quite solemnly. But it seems to me that the one thing we have left now that is our own, that is within our keeping, that can and will save us, that can and will preserve this great Republic, that can preserve to us and our posterity the blessings of liberty, is the Constitution, reposed at last by the highest court in our care and keeping. May God help us.

Mr. CLARK of Missouri. Mr. President, I hope I may be pardoned by the Senate if at this late hour I return to the proposition before the Senate, which is the amendment of the junior Senator from Nevada [Mr. BUNKER], and attempt as best I can to resume the thread of my remarks as I was proceeding some hour and a half ago when I was interrupted by the first half of the noble oration of the Senator from North Carolina. Of course, I realize that it is always a very opprobrious task to return to the business before the Senate; but, so far as I can do so, I desire to do that.

Mr. President, let me say first with reference to the noble speech of the Senator from North Carolina, for whom I have great admiration and to whom I always listen with great pleasure and agreement, that I would be the last to disagree with him in his condemnation of communism. I agree with him 1,000 percent in his condemnation of communism. Let me say, though, Mr. President, that I was not one of those in this body who voted for legislation which made possible the present alliance of the United States with Communist Russia which has been authorized by the Lease-Lend Act. I was one of those who voted against any possible alliance with Communist Russia because I realized, in spite of repeated denials in the Foreign Relations Committee, that that law was broad enough to authorize the substantial alliance with "Bloody Joe" Stalin and the rest of the Communists in the world.

Mr. McCARRAN. Mr. President, I wonder if the Senator will yield to me at that point in order that I may propound a question.

Mr. CLARK of Missouri. I am glad to yield to the Senator from Nevada at any time.

Mr. McCARRAN. Does the Senator from Missouri distinguish between a beautiful speech and a vote which would put us into alliance with one of the most bloody tyrants the world has ever known?

Mr. CLARK of Missouri. Mr. President, that is exactly what I was trying to express; that to my mind, as was repeatedly charged in the Foreign Relations Committee, the lease-lend bill was broad enough to authorize an alliance with Bloody Joe Stalin and the Communist murderers; and that alliance, which was bitterly denied at that time in the Foreign Relations Committee, and was bitterly denied later on the floor, has subsequently been made. Yes; I draw the distinction which the Senator has mentioned.

But, Mr. President, I desire to return very briefly to the discussion of this particular amendment. As I was explaining in the previous portion of my remarks, this matter is presented to the Senate not as an original proposition for a prohibitive tax or for any other sort of tax, but as a proposal from the House of Representatives reading as follows:

> Every person who maintains for use or permits the use of, on any place or premises occupied by him, a coin-operated amusement or gaming device shall pay a special tax of $25 per year in respect of such device, and shall pay an additional special tax of $25 per year for each additional such device so maintained or the use of which is so permitted.

Mr. President, there was not any dispute in the House committee or in the House or in the Finance Committee of the Senate as to what that definition included. It included everything, every sort of a device into the slot of which a man puts a nickel, except vending devices. It included every sort of device with which a boy or a man or a woman plays a pinball game to see how high a score he can run up, without any hope whatever of recompense of any sort except to see what luck he can have in

being skillful. It also includes the vicious racketeering devices known as the "one-armed bandits," these things with the lemons and the prunes, and the sort of devices which hold out the hope of getting a return in the way of money.

Mr. President, it seems to me absolutely immoral to classify these various devices in the same category. In the one case, a boy or a girl or a man or a woman puts his nickel in the slot for the sole purpose of trying his own personal skill, without any hope of recompense. Such a device has no particular attraction to anyone who is not able to put a nickel in the slot. On the other hand, it is known all over the United States, except in possibly two or three States, that gambling slot machines are something that it is impossible to beat. They have a peculiar attraction for children. A few years ago from an investigation conducted in Kansas City, Mo., it was found that children sent to market by the poorest classes of citizens would spend their money in the slot machines instead of bringing home the groceries they were supposed to bring home.

A few days ago in the city of St. Louis, where I live, and which, as I believe, has as honest a police department as any other city in the country, in one particular case on 3 successive days the police made raids on a drug store located in one of the leading hotels in the city, arrested the clerk on duty, took away the slot machine, and the next day went back and found another clerk on duty and another slot machine operating.

I have before me a newspaper account from an Akron paper recounting a grand-jury investigation in Franklin County of conditions in Columbus, Ohio, in which it is said that it has been absolutely impossible for the local authorities to break up this vicious racket.

Mr. President, it seems to me it would be absolutely immoral to levy a revenue tax on such an absolutely immoral proposition as this gambling slot-machine racket. I do not think the Government of the United States would be justified under any conditions in levying a revenue tax on an admittedly immoral racket.

The senior Senator from Nevada [Mr. McCARRAN] a while ago said that I was reflecting on the State of Nevada when I said that to levy a revenue tax on these one-armed bandits was equivalent to levying a revenue tax on prostitution. He said I was insulting the State of Nevada. I deny any application of that remark to any one State. I say it would be absolutely equivalent to levying a revenue tax on prostitution, or on the opium racket, or on any other racket, and I do not apply the statement to any one State. I apply it to every State, and I say it would be absolutely immoral for the Federal Government of the United States to levy such a revenue tax.

Mr. President, I suggest the absence of a quorum.

The VICE PRESIDENT. The clerk will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

Adams	Austin	Barbour
Aiken	Bailey	Barkley
Andrews	Bankhead	Bilbo
Brewster	Guffey	Overton
Bridges	Hatch	Peace
Brooks	Hayden	Radcliffe
Bulow	Herring	Rosier
Bunker	Hill	Russell
Burton	Holman	Schwartz
Butler	Hughes	Smathers
Byrd	Johnson, Colo.	Smith
Capper	Kilgore	Spencer
Caraway	La Follette	Taft
Clark, Idaho	Langer	Thomas, Idaho
Clark, Mo.	Lee	Thomas, Utah
Connally	Lucas	Tobey
Danaher	McCarran	Tunnell
Davis	McFarland	Tydings
Downey	McNary	Vandenberg
Eastland	Maloney	Van Nuys
Ellender	Murray	Walsh
George	Nye	Wiley
Gerry	O'Daniel	
Green	O'Mahoney	

The VICE PRESIDENT. Seventy Senators have answered to their names. A quorum is present. The question is on the amendment of the junior Senator from Nevada [Mr. BUNKER] to the committee amendment.

Mr. BAILEY. Mr. President, I wish to say just a few words in response to the suggestion that since I voted for the lease-lend bill I am estopped to defend the Constitution.

Mr. CLARK of Missouri. Mr. President——

Mr. BAILEY. I yield.

Mr. CLARK of Missouri. The Senator need not shake his gory locks at me; I did not say that; but I did say the Senator was estopped to denounce the Communists because he voted to authorize the alliance with the Communists which has taken place.

Mr. BAILEY. I will take the Senator's words that I am estopped to denounce what he says is our alliance with the communistic government of Russia. I wish to make myself clear about that. I am willing for the Russians, according to the Declaration of Independence, to have such a government as they wish to have; I am willing for the Germans, following the injunction in our Declaration of Independence, to have any sort of government they wish to have, and I am determined to do my part to see to it that, notwithstanding the character of government that exists in other lands, the character of this Government as a Republic shall be preserved. I do not see anything in the nature of an estoppel, I do not see anything that tends remotely to impair the force of my argument in that I freely confess my sympathies now are with Russia in her struggle against the Nazis. I hope she holds out; I hope she holds out until the rains come; I hope she holds out until the mud becomes so deep that the Germans will not be able to move; I hope she holds out until the thermometer goes down to 50 degrees below zero.

I regard ourselves in the matter as involved not with the threat of Russia at the moment or the threat of communism coming from Russia at the moment, but as threatened by the revolution of nihilism put forward and led by Hitler and the Nazi Party, and I consider it to the welfare of humanity, to the welfare of every other nation and to the welfare of the United States, at any cost, that Hitler and his unspeakable regime shall be crushed and destroyed. If, in the province of God, Hitler has made the blunder of attacking the Russians, if, by the grace of God, the Russians shall be enabled to turn upon him and destroy him, and if, by the help of this country, we may enable the Russians to destroy him, I am entirely willing. That does not commit me to communism but it does commit me to the destruction of the man and the party and the people who have deliberately set out to rule this world and to destroy our civilization.

Mr. McCARRAN. Will the Senator yield at that point for a question?

Mr. BAILEY. Yes.

Mr. McCARRAN. In the same train of thought, would the Senator kindly state what he thinks of that government which for 25 years has set out to destroy this form of government and has sent its emissaries into this country for the purpose of destroying this form of government?

Mr. BAILEY. I think the Senator is exactly right. I think the Third Internationale, the Rusian regime, has undertaken to spread communism throughout the world. I make no defense of that; but I am saying now that what my country has to do is to meet the major threat, to meet the supreme danger, and if, by such feeble aid as we may send to the Russian soldier and to the Russian Government, we may bring about an end of Hitler and his Nazis, we may well pay the price of being charged with aiding our communistic enemies. We can deal with them when the time comes; but what this country has now to do and what the whole world has now to do is to arrest the progress of Adolf Hitler and all the destructive forces which he has summoned to his aid.

Mr. McCARRAN. Mr. President——

Mr. BAILEY. I will yield in a moment.

My question is, What shall my country do to arrest the progress of the superior menace? I am no friend of the devil; but if I could turn Satan loose upon Hitler I would do it; and yet you impute that to me as espousing hell. Oh, no; I am dealing with the situation as it is, and according to its necessities.

I cannot say how events will fall; but if, in this situation, events shall so fall out that we, by aid to any nation, may destroy Hitler, it is our duty to ourselves to do so; and I said no less in advocating the lease-lend bill.

Mr. LEE. Mr. President, will the Senator yield at that point?

Mr. BAILEY. Certainly.

Mr. LEE. The Senator said he would turn Satan loose on Hitler if he could. He would even furnish him a little brimstone, would he not, if he was sure Satan would use it on Hitler?

Mr. BAILEY. Well, if I could borrow some from the Senator from Oklahoma, I would do it. [Laughter.]

Mr. CLARK of Missouri. The Senator could do it under the lease-lend bill.

Mr. BAILEY. If I could get some brimstone from any source to arrest that threat I would do so, and I would not consider myself as having compromised my country.

We can help the Chinese fight the Japs without becoming Chinese. We do not endorse their country. We do not endorse their doings. We can help the Brit-

ish as they fight Hitler. We do not thereby approve the British form of government or the British system. All we do is to act as prudent men who desire to preserve the peace of our homes and the prosperity of our land, and to aid where aid will arrest the most dangerous and the most threatening enemies.

If I had time I could go into that threat. Russia is not now trying to capture the seas. Russia is not now threatening the existence of the British Empire and the British fleet. Russia may have some emissaries over here now, but they are not half so dangerous as the victims of modern reform.

The thing that comes home to me is just this: We should like to avoid the ordeal of war. We should like to preserve the freedom of the seas. We should like to see peace once more in the world. Desiring those three objectives, I rejoice with a great joy that the Russians for 10 long weeks have arrested the German progress; and I hope and pray to God that they will be able not only to arrest that progress for 10 weeks more, but to bring about the disintegration of Hitler and all his works in the long winter that lies ahead.

I make my confession: I read the newspapers every day, and as I read them I am disappointed when I see the Russians losing, and I am encouraged when I see the Germans retreating. If that be treason, if that be crime, if that be communism, make the most of it. I see no difficulty; and I shall continue on this floor to protest in behalf of the Republic and the Constitution, notwithstanding efforts to tar me with the red stick simply because, making a choice between Hitler and Stalin, I wish Stalin well—so well that I hope he destroys the German Army, and brings an end to the unspeakable and damnable machine that threatens all that is good and all that is beautiful and all that is hopeful in the civilization which we have been building now for a thousand years.

So, Mr. President, that is my apology. I am not ashamed; I am not compromised; but if anyone chooses to think I am, so be it.

Mr. McCARRAN. Mr. President, I am impressed with the last remarks of the able Senator from North Carolina, and I wish to impress him with a further statement. I wish he might have said, "I am for America first."

Mr. HATCH. Mr. President——

Mr. McCARRAN. If the Senator from North Carolina will now rise and make that statement, I shall be very happy.

Mr. BAILEY. Mr. President, will the Senator yield to me for a moment?

Mr. McCARRAN. Yes; I yield.

Mr. BAILEY. That is why I hope the Russians destroy the Germans. I am for America first.

Mr. HATCH. Mr. President, will the Senator yield?

Mr. McCARRAN. I am not yielding to the Senator from New Mexico right now.

Mr. President, after all is said and done, it remains a question of whether we shall encourage within this country those who for 23 years have avowedly come here for the purpose of destroying this country, or whether we shall stand for this country against that movement.

I made the remark which probably provoked the last very able statement of the Senator from North Carolina. I drew a distinction between his able remarks and his vote. His vote was for the lend-lease bill; and it is now declared by the leader of this Government that we will lend and lease and give all aid to the nation that has sent its emissaries into this country during the past 23 years for the destruction of this Government.

Are we going to go forward with that policy? If we go forward with that policy, then, of course, we may listen to beautiful speeches which will sound well in North Carolina, which will sound well anywhere, but which will not bring about results. If we are going to protect America, let us protect America by defending America here at home. Let us remain entirely aloof from foreign alliances. Let us keep away from Russia; let us keep away from Hitler; let us keep away from everything which would have torn down in the last 20 years the splendid achievements of the founders of this Government.

Mr. President, a majority voted for the lease-lend bill, but I do not believe, I never will believe, that those who voted for the lease-lend bill would have voted for it if they had known that it was to bring about a communistic form of government in this country. I wonder if there is anyone on the floor of the Senate who will deny that statement? If there is, I want him to rise now and deny what I have just stated. If there is anyone on the floor of the Senate who will say that when he voted for the lend-lease bill he voted to bring about a communistic form of government in this country, let him say so now.

Mr. CLARK of Missouri. Mr. President——

The PRESIDING OFFICER (Mr. SMATHERS in the chair). Does the Senator from Nevada yield to the Senator from Missouri?

Mr. McCARRAN. I yield.

Mr. CLARK of Missouri. I should like to recall to the Senator's memory the fact which I stated a moment ago, that not only was the charge made that the lease-lend bill would authorize an alliance with Soviet Russia in the Committee on Foreign Relations and on this floor, but it was vehemently denied by the sponsors of the measure, both in the Committee on Foreign Relations and on the floor of the Senate.

Mr. McCARRAN. I know that. I know it was denied by the able leader of the majority. I know it was denied by the able Senator who now has charge of the bill pending before the Senate. I know that the Senator from Georgia denied all those things. But we are confronted with a reality and not a theory. In other words, the leader, the Executive, is now saying that we are going to sponsor Russia—communistic Russia, if you please. I wonder if someone here will say he voted for that. If there is anyone on the floor of the Senate who voted for that policy, I wonder if he would now declare that he did so. There is not a chance of that.

Yet communism was then in the United States. It had been implanted here. It was implanted here when we recognized Soviet Russia. If I hear a denial of that, let me recite the fact that the President at that time stated that he had been promised that there would be no communistic propaganda put out or planted in this country. Is there anyone here who will deny that statement? I hear no voice. Yet today we are enhancing communism in this country, enhancing it because we know it is here, because the Dies committee, coming from a coordinate branch of the Government, has declared that it is here. It is here, right with us, and we are going now to say that we will give a sponsorship to it by aiding, by lending, by giving.

Mr. President, I am naturally entranced, I am naturally won, by the able argument of the Senator from North Carolina, who does not do me the honor to remain here. Nevertheless, we are all won by his argument, but we are not won by his votes. His argument is beautiful, but his vote does not seem to me to go along with the policy which he espouses.

There are those of us who, until God takes us out of this realm, will go down the line for the Constitution of the United States. That is all the Senator from North Carolina seems to espouse. He has plenty of company in that respect. We will all go with him along that line. But if we espouse the principles of the Constitution of the United States, we will not lend support to those who would destroy this Government, and who are now here attempting to destroy it.

I despise Mr. Hitler and all he stands for, and equally I despise Mr. Stalin and all he stands for. I want those two dogs to come together and destroy each other. It would be well for democracy. But I would not lend a word to either one of them, because neither of them is a friend of this country. If Stalin succeeds, then God help democracy, and God help Christianity, because if ever Stalin was a friend of Christianity, neither the able Senator from North Carolina nor any other Senator who is a friend of Christianity can find evidence of it.

So we come back to the amendment offered by my colleague, which is a very democratic and rather subordinate proposition. In attempting to defend the amendment offered by my colleague against my good friend the Senator from Missouri, I took exception to the remarks of the Senator from Missouri. I did so because I felt that he went just a little further than he should have gone and I think so now. I think his argument would have been much more cogent had it not been based on the principle of destroying something, because it goes back to the old original proposition that the power to tax is the power to destroy, and the Senator from Missouri stated freely that he offered the amendment to destroy.

Mr. CLARK of Missouri. Mr. President, will the Senator yield?

Mr. McCARRAN. I yield.

Mr. CLARK of Missouri. I did not say I offered this amendment to destroy; I said I offered an amendment to tax these machines $1,000 each, to destroy them. I also said I had very fine evidence, to wit, that of the Senator's junior colleague, that it would not destroy them in the Senator's State. I am

satisfied it would not destroy them in my State, and therefore I am in favor of destroying them.

Mr. McCARRAN. Let us look at the fundamental principle involved. If it is possible to destroy a thing by this amendment, why is it not possible to destroy something else by a similar amendment? The Senator will agree with me in that, of course.

Mr. CLARK of Missouri. I agree that the power to tax always has and always will involve the power to destroy; yes. There is no question about that. Everyone has always understood that ever since taxes first began to be levied.

Mr. McCARRAN. Very well.

Mr. HUGHES. Mr. President, will the Senator from Nevada yield?

Mr. McCARRAN. I yield.

Mr. HUGHES. I have been listening to what has been said by the Senators who have objected to the provision in the bill to which attention is now being directed. I am at some loss to understand how we are to arrive at a conclusion that this tax will destroy the particular thing on which it is levied. It seems to me that is a matter of evidence. It may or it may not. If we fix a lump-sum tax, until we have tried it out, unless we have the evidence of how much the particular business affected makes, how can we say it is going to destroy it? Therefore, how does the Senator arrive at the conclusion that a $200 tax, which he is talking about, would destroy the property taxed?

Mr. McCARRAN. Mr. President, I will say that I am not a member of the committee——

Mr. HUGHES. I am not a member either.

Mr. McCARRAN. But the thought strikes me that it would have been very wise to have held hearings bearing on the subject, and it is my understanding that no hearings at all were held. Extensive hearings were held in the House committee, and the House fixed a certain tax. So it seems to me it would have been proper for the Senate committee to have held hearings on the subject.

Mr. HUGHES. Does the Senator mean the House concluded that $200—and we are speaking of that particular item—would not destroy the business in question?

Mr. McCARRAN. No; I do not agree to that.

Mr. CLARK of Missouri. Mr. President, will the Senator yield?

Mr. McCARRAN. I yield.

Mr. CLARK of Missouri. I agree that no hearings were held in the Senate committee on the matter, but extensive hearings were held, as the Senator said, before the House Ways and Means Committee, which hearings, of course, were available to the Senate committee.

Mr. McCARRAN. The House committee, after hearings, as I understand, fixed the tax rate at $25.

Mr. CLARK of Missouri. On all sorts of machines, yes. The House committee, in other words, on the same evidence arrived at one conclusion, and the Senate committee arrived at another conclusion.

Mr. McCARRAN. Will the Senator from Missouri admit that the House hearings were very much more exhaustive of the subject?

Mr. CLARK of Missouri. I will admit that the Senate committee never held any hearings on this specific item, but the hearings held before the House committee, of course, were available to the Senate committee. I cannot speak as to the other members of the Senate committee, but I know I read all the House committee hearings before the Senate committee started its hearings, and I attended all the Senate committee meetings.

Mr. McCARRAN. Of course, the Senator is a student, and he read the hearings, and after reading them he knew that the House committee concluded, after holding very exhaustive hearings, that they could fix only $25 as a proper tax on this particular line of business. That is correct, is it not?

Mr. CLARK of Missouri. I know that that is the tax which the House did fix.

Mr. McCARRAN. Yes.

Mr. CLARK of Missouri. I cannot tell about the conclusions reached by the members of the House committee. I will say very freely that that is the rate the House fixed, which it seemed to me was essentially unfair, and it seemed to the Senate committee it was essentially unfair.

Mr. McCARRAN. It was not based on the hearings, because, had it been based on the hearings, the House would have fixed a different tax rate.

Mr. CLARK of Missouri. I would not say that. The House committee apparently arrived at a different conclusion than the Senate committee arrived at. I read the House hearings, and I arrived at a different conclusion from that arrived at by members of the House committee who reported a $25 tax.

Mr. McCARRAN. No; the House arrived at a different conclusion from that arrived at by the Senator from Missouri.

Mr. CLARK of Missouri. That is true. So did the Senate committee arrive at a different conclusion from that arrived at by the House committee and by the House. That is what makes legislation.

Mr. HUGHES. Mr. President, let me say that I have not read the hearings, but I am concerned with the problem, that in considering a bill which is intended to raise revenue, which we presume it is entirely, with no purpose of destroying property, and in trying to avoid destruction of property which we are taxing, how am I to satisfy myself, for instance, and how is the Senator from Nevada to satisfy himself, or how is any other Senator to satisfy himself that a particular tax, $200 we will say, would or would not have the effect of destroying the property which is taxed? We should avoid destroying property. Therefore, it seems to me, we should support the amendment which the Senator is espousing.

Mr. McCARRAN. I will answer the Senator's question. The House committee held exhaustive hearings. The House of Representatives is responsible for revenue bills. Such bills are initiated in the House. The House of Representatives fixed a tax of $25. The Senate Committee on Finance held no hearings whatever, but arbitrarily the committee fixed a tax of $200. I say the Senator may be guided by the hearings held by the House committee. That is my answer to his question.

Mr. HUGHES. I thank the Senator.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Nevada [Mr. BUNKER] to the committee amendment on page 105, line 7.

Mr. LA FOLLETTE. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

Adams	Downey	Nye
Aiken	Eastland	O'Daniel
Andrews	Ellender	O'Mahoney
Austin	George	Overton
Bailey	Gerry	Peace
Bankhead	Green	Radcliffe
Barbour	Guffey	Rosier
Barkley	Hatch	Russell
Bilbo	Hayden	Schwartz
Brewster	Herring	Smathers
Bridges	Hill	Smith
Brooks	Holman	Spencer
Bulow	Hughes	Taft
Bunker	Johnson, Colo.	Thomas, Idaho
Burton	Kilgore	Thomas, Utah
Butler	La Follette	Tobey
Byrd	Langer	Tunnell
Capper	Lee	Tydings
Caraway	Lucas	Vandenberg
Clark, Idaho	McCarran	Van Nuys
Clark, Mo.	McFarland	Walsh
Connally	McNary	Wiley
Danaher	Maloney	
Davis	Murray	

The PRESIDING OFFICER. Seventy Senators having answered to their names, a quorum is present.

The question is on agreeing to the amendment offered by the Senator from Nevada [Mr. BUNKER] to the committee amendment.

Mr. BUNKER. Mr. President, I have no desire to have a roll call on this amendment. I should like to say that my friends in Nevada, who were interested in this matter, have no connection whatever with Mr. Stalin or with Mr. Hitler. They are really fine fellows, and if the Senators knew them they would like them.

Mr. President, I happened to have been a member of the Nevada State Legislature 5 years ago, and I was chairman of the ways and means committee, so I know how difficult it is to raise a few dollars in a small State. Since the Government needs money, we are willing to raise the tax to $50.

Mr. President, it may be a vicious racket to operate "one-arm bandits" in States in which they are not legal; but in Nevada it is not a racket, it is a legalized operation of business.

I am not a reformist, although I studied for the ministry; and I know that my friend the Senator from Missouri [Mr. CLARK], while we differ on this matter, is not a reformist. We tried to do away with drinking by national legislation. We could not do it. I do not believe we can do away with gambling by taxation. I do not believe it is the desire of the Senator from Missouri to take away any revenue derived from legalized gambling in the State of Nevada. So I am anxious to vote on the question. I may say that my amendment should be adopted, first, because the $200 tax will not accomplish its purpose; it will not do away with slot machines in America. The second point is that if they do exist,

it is up to the local law-enforcement agencies to deal with them. Third, it would work a very serious hardship on my State.

The PRESIDING OFFICER. The question is on agreeing to the amendment, as modified, offered by the Senator from Nevada [Mr. BUNKER] to the committee amendment on page 105, in lines 7 and 9.

Mr. CLARK of Missouri. I ask for a division, Mr. President.

The Senate proceeded to divide.

Mr. CLARK of Missouri. I ask for the yeas and nays.

The yeas and nays were ordered, and the Chief Clerk proceeded to call the roll.

Mr. DAVIS (when his name was called). I have a general pair with the Senator from Kentucky [Mr. CHANDLER]. Not knowing how he would vote, I withhold my vote.

Mr. McNARY (when his name was called). Referring again to my pair with the Senator from Tennessee [Mr. MCKELLAR], not knowing how he would vote if he were present, I withhold my vote.

The roll call was concluded.

Mr. HOLMAN (after having voted in the affirmative). I have been reminded that I have a general pair with the junior Senator from Tennessee [Mr. STEWART]. Not knowing how he would vote, I withdraw my vote.

Mr. RADCLIFFE. My colleague [Mr. TYDINGS] is unavoidably absent. Were he present, his vote would be "nay."

Mr. HILL. I announce that the Senator from Washington [Mr. BONE], the Senator from Iowa [Mr. GILLETTE], the Senator from Virginia [Mr. GLASS] the Senator from North Carolina [Mr. REYNOLDS], and the Senator from New York [Mr. WAGNER] are absent from the Senate because of illness.

The Senator from Kentucky [Mr. CHANDLER] is absent on a defense-inspection tour.

The Senator from New York [Mr. MEAD], the Senator from Missouri [Mr. TRUMAN], and the Senator from Washington [Mr. WALLGREN] are engaged in holding hearings on behalf of the Committee to Investigate the National Defense Program.

The Senator from Oklahoma [Mr. LEE] and the Senator from Connecticut [Mr. MALONEY] are detained on departmental business.

The Senator from Michigan [Mr. BROWN], the Senator from South Dakota [Mr. BULOW], the Senator from New Mexico [Mr. CHAVEZ], the Senators from Tennessee [Mr. MCKELLAR and Mr. STEWART], the Senator from Utah [Mr. MURDOCK], the Senator from Florida [Mr. PEPPER], the Senator from Oklahoma [Mr. THOMAS], and the Senator from Montana [Mr. WHEELER] are necessarily absent.

Mr. AUSTIN. I announce the following general pairs:

The Senator from Indiana [Mr. WILLIS] with the Senator from New Mexico [Mr. CHAVEZ];

The Senator from Minnesota [Mr. SHIPSTEAD] with the Senator from Virginia [Mr. GLASS];

The Senator from Minnesota [Mr. BALL] with the Senator from Missouri [Mr. TRUMAN];

The Senator from South Dakota [Mr. GURNEY] with the Senator from Florida [Mr. PEPPER];

The Senator from Kansas [Mr. REED] with the Senator from Washington [Mr. WALLGREN]; and

The Senator from Massachusetts [Mr. LODGE] with the Senator from North Carolina [Mr. REYNOLDS].

The result was announced—yeas 40, nays 22, as follows:

YEAS—40

Adams	Downey	Peace
Aiken	Ellender	Rosier
Andrews	Gerry	Russell
Austin	Guffey	Schwartz
Bailey	Hatch	Smathers
Bankhead	Hayden	Smith
Barkley	Hill	Spencer
Brooks	Kilgore	Taft
Bunker	Lucas	Thomas, Idaho
Burton	McCarran	Thomas, Utah
Butler	McFarland	Tunnell
Caraway	Murray	Walsh
Clark, Idaho	O'Mahoney	
Danaher	Overton	

NAYS—22

Barbour	Eastland	O'Daniel
Bilbo	George	Radcliffe
Brewster	Green	Tobey
Bridges	Herring	Vandenberg
Byrd	Hughes	Van Nuys
Capper	Johnson, Colo.	Wiley
Clark, Mo.	La Follette	
Connally	Nye	

NOT VOTING—34

Ball	Langer	Shipstead
Bone	Lee	Stewart
Brown	Lodge	Thomas, Okla.
Bulow	McKellar	Truman
Chandler	McNary	Tydings
Chavez	Maloney	Wagner
Davis	Mead	Wallgren
Gillette	Murdock	Wheeler
Glass	Norris	White
Gurney	Pepper	Willis
Holman	Reed	
Johnson, Calif.	Reynolds	

So Mr. BUNKER's modified amendment to the committee amendment was agreed to.

The PRESIDING OFFICER. The question now is on agreeing to the committee amendment, as amended.

Mr. CLARK of Missouri. Mr. President, I wish to be recorded as against the committee amendment, as amended. I do not wish to take the trouble to ask for the yeas and nays but I wish to be recorded as against the committee amendment, with a view to making a motion to reconsider later.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment, as amended.

The amendment as amended was agreed to.

Mr. CLARK of Missouri. Mr President, I desire to enter a motion to reconsider the vote by which the committee amendment as amended was agreed to.

Mr. BARKLEY. I move to lay that motion on the table.

Mr. CLARK of Missouri. I suggest the absence of a quorum

The PRESIDING OFFICER. The clerk will call the roll

The legislative clerk called the roll, and the following Senators answered to their names:

Adams	Austin	Barbour
Aiken	Bailey	Barkley
Andrews	Bankhead	Bilbo
Brewster	Green	Overton
Bridges	Guffey	Peace
Brooks	Hatch	Radcliffe
Bunker	Hayden	Rosier
Burton	Herring	Russell
Butler	Hill	Schwartz
Byrd	Holman	Smathers
Capper	Hughes	Smith
Caraway	Johnson, Colo.	Spencer
Clark, Idaho	Kilgore	Taft
Clark, Mo.	La Follette	Thomas, Idaho
Connally	Lucas	Thomas, Utah
Danaher	McCarran	Tobey
Davis	McFarland	Tunnell
Downey	McNary	Vandenberg
Eastland	Murray	Van Nuys
Ellender	Nye	Walsh
George	O'Daniel	Wiley
Gerry	O'Mahoney	

The PRESIDING OFFICER. Sixty-five Senators having answered to their names, a quorum is present.

Mr. CLARK of Missouri. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. CLARK of Missouri. What is the business before the Senate?

The PRESIDING OFFICER. The question before the Senate is on agreeing to the motion made by the Senator from Kentucky that the motion to reconsider be tabled.

Mr. CLARK of Missouri. I did not make a motion to reconsider. I simply entered a motion to reconsider, which is not the equivalent of making a motion to reconsider. Therefore there is nothing before the Senate to be tabled.

Mr. BARKLEY. I understood that the Senator from Missouri made a motion to reconsider.

Mr. CLARK of Missouri. I entered a motion to reconsider. If the Senator from Kentucky desires to make a motion, that is his business. But he cannot move to table a motion which has not been made.

Mr. BARKLEY. I realize that, but I thought the Senator from Missouri made a motion to reconsider.

The PRESIDING OFFICER. The Parliamentarian informs the Chair that a motion entered and a motion made are the same thing.

Mr. CLARK of Missouri. Mr. President, that is entirely contrary to the practice of the Senate. I defy the Parliamentarian or the Chair or anyone else to find one precedent in the Senate by which giving notice of intention to move to reconsider after the lapse of 2 days is equivalent to making a motion to reconsider.

Mr. BARKLEY. It is one thing to serve notice on the Senate that, within the rules, at some future time a motion will be made to reconsider a vote. It is another thing to enter a motion which, as I understand it, is equivalent to making a motion.

Mr. CLARK of Missouri. Entering a motion is not in any sense equivalent to making a motion; but if it pleases the Senator from Kentucky, I will give notice that at some time in the future I will make such a motion.

Mr. BARKLEY. I thought the Senator from Missouri made the motion.

Mr. CLARK of Missouri. I did not make the motion. I entered the motion. I can recall a similar instance with which both the Senator from Kentucky and I

were concerned. In the last days of the Hoover administration the late Senator from Wisconsin, Mr. Blaine, gave notice of his intention to enter a motion to reconsider, but did not later make such a motion. I made the motion in the Senate.

Mr. BARKLEY. I do not care to take any technical advantage of the Senator from Missouri, if the Senator from Missouri did not mean to make the motion.

Mr. CLARK of Missouri. I did not make the motion, Mr. President.

Mr. BARKLEY. Whether the Senator did or did not, if it was not his intention to make the motion, I accept his word as to that, and therefore I withdraw my motion to lay on the table.

Mr. CLARK of Missouri. The motion was not in order in the first place.

Mr. BARKLEY. I am not conceding that. I assumed that the Senator from Missouri knew what he was trying to do.

Mr. CLARK of Missouri. I certainly did.

Mr. LUCAS. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. LUCAS. In view of the motion made by the Senator from Missouri, will the Senator from Illinois now be in order in making a motion to table it?

Mr. BARKLEY. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. BARKLEY. As I understand, there was no motion made, and no notice given of a motion to be made to reconsider the vote by which the amendment of the junior Senator from Nevada [Mr. BUNKER] was agreed to.

The PRESIDING OFFICER. That is correct.

Mr. BARKLEY. After the amendment to the amendment was agreed to, the Senate voted on the question of agreeing to the committee amendment as amended by the Bunker amendment.

The PRESIDING OFFICER. That is correct.

Mr. BARKLEY. And it was with respect to the motion to agree to the amendment as amended that the Senator from Missouri gave notice of his intention to move to reconsider the vote by which the motion was carried. It is now in order for any Senator who voted with the majority, or any other Senator, because of there being no roll call, to move to reconsider the vote by which the committee amendment as amended was agreed to.

Mr. LUCAS. Mr. President, I so move.

Mr. CLARK of Missouri. Mr. President, I move that the consideration of that question be postponed until 2:30 tomorrow.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Missouri.

Mr. CLARK of Missouri. Pending that, Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

Adams	Davis	Nye
Aiken	Downey	O'Daniel
Andrews	Eastland	O'Mahoney
Austin	Ellender	Overton
Bailey	George	Peace
Bankhead	Gerry	Radcliffe
Barbour	Green	Rosier
Barkley	Guffey	Russell
Bilbo	Hatch	Schwartz
Brewster	Hayden	Smathers
Bridges	Herring	Smith
Brooks	Hill	Spencer
Bunker	Holman	Taft
Burton	Hughes	Thomas, Idaho
Butler	Johnson, Colo.	Thomas, Utah
Byrd	Kilgore	Tobey
Capper	La Follette	Tunnell
Caraway	Lucas	Vandenberg
Clark, Idaho	McCarran	Van Nuys
Clark, Mo.	McFarland	Walsh
Connally	McNary	Wiley
Danaher	Murray	

The PRESIDING OFFICER. Sixty-five Senators having answered to their names, a quorum is present.

Mr. BARKLEY. Mr. President, I move that the motion of the Senator from Missouri [Mr. CLARK] to postpone until an hour definite tomorrow be laid on the table.

Mr. CLARK of Missouri. I suggest the absence of a quorum.

Mr. BARKLEY. Mr. President, it has just been developed that a quorum is present.

Mr. CLARK of Missouri. Mr. President, making the motion, according to all the Senate precedents, is the transaction of business.

The PRESIDING OFFICER. The Chair is advised that the Senator from Missouri has a right to call for a quorum. The clerk will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

Adams	Davis	Nye
Aiken	Downey	O'Daniel
Andrews	Eastland	O'Mahoney
Austin	Ellender	Overton
Bailey	George	Peace
Bankhead	Gerry	Radcliffe
Barbour	Green	Rosier
Barkley	Guffey	Russell
Bilbo	Hatch	Schwartz
Brewster	Hayden	Smathers
Bridges	Herring	Smith
Brooks	Hill	Spencer
Bunker	Holman	Taft
Burton	Hughes	Thomas, Idaho
Butler	Johnson, Colo.	Thomas, Utah
Byrd	Kilgore	Tobey
Capper	La Follette	Tunnell
Caraway	Lucas	Vandenberg
Clark, Idaho	McCarran	Van Nuys
Clark, Mo.	McFarland	Walsh
Connally	McNary	Wiley
Danaher	Murray	

The PRESIDING OFFICER. Sixty-five Senators have answered to their names. A quorum is present. The question is on the motion of the Senator from Kentucky [Mr. BARKLEY] to lay on the table the motion of the Senator from Missouri [Mr. CLARK].

The motion to lay on the table was agreed to.

Mr. CLARK of Missouri. Mr. President, I suggest the absence of a quorum.

Mr. GEORGE. Mr. President, will not the Senator from Missouri withhold that motion?

Mr. CLARK of Missouri. I am glad to withhold the motion. I may say that it is my intention, after anything the Senator from Georgia has in mind, to make a motion to postpone the motion of the Senator from Illinois [Mr. LUCAS] until 4 o'clock tomorrow, which, I understand, under the rules of the Senate I have a perfect right to do, and then possibly to make a later motion; but I shall be glad to withhold the motion if the Senator from Georgia has some business which he desires to transact.

Mr. GEORGE. Mr. President, I very much desire to get through with the remaining amendment in the committee bill, beginning on page 120, line 1, and going to line 18, on page 123. The Senator from Connecticut [Mr. DANAHER] desires to offer an amendment to that amendment.

The PRESIDING OFFICER. The amendment offered by the Senator from Connecticut will be stated.

Mr. GEORGE. Mr. President, a parliamentary inquiry. Is there already a motion before the Senate?

The PRESIDING OFFICER. The Chair is advised that the motion of the Senator from Illinois [Mr. LUCAS] to reconsider the vote on the committee amendment, as amended, on page 105, is before the Senate.

Mr. GEORGE. I ask unanimous consent that that motion be temporarily laid aside so that we may proceed with at least two matters this afternoon.

Mr. LUCAS. I have no objection to the request of the Senator from Georgia.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. DANAHER. Mr. President, may the amendment I have sent to the desk be stated?

The PRESIDING OFFICER. The amendment offered by the Senator from Connecticut will be stated.

The LEGISLATIVE CLERK. The last committee amendment passed over is on page 120, title VII, credit against Federal unemployment taxes, etc. Mr. DANAHER proposes an amendment to the title on page 123, after line 18, to add a new section, to read:

> The act approved July 1, 1941 (Public Law 146, 77th Cong.) entitled "An act making appropriations for the Department of Labor, the Federal Security Agency," etc., under title II, under the heading "Social Security Board," is amended by repealing so much thereof as reads "and elsewhere in connection with the operation of employment office facilities and services essential to expediting the national-defense program."

Mr. GEORGE. Mr. President, before the Senator from Connecticut proceeds, I hope it will be agreeable to him to yield to the junior Senator from Colorado [Mr. JOHNSON], who wishes to enter something in the RECORD.

Mr. DANAHER. Of course; I shall be happy to yield to the Senator from Colorado.

Mr. JOHNSON of Colorado. Mr. President, I thank the Senator from Georgia and the Senator from Connecticut.

It must be apparent to everyone who has given the subject much thought that, so far as taxation is concerned, the mining industry must be treated on a different basis than other industries. In an effort to establish the principle of permitting a credit based upon the normal profit per unit of mine production, it was suggested by me in committee that the drafting experts should be instructed

to prepare an amendment to the bill which would prevent the excess-profits tax from being unfairly applied to the normal profits of mines.

It was suggested that the draft should be based upon the following principles:

First. Where the normal profit per unit of production is determinable on the basis of past experience, the excess-profits credit should include such normal profit per unit on the production of the taxable year.

Second. In the case of new corporations or mines not operating on a commercially profitable basis during the base period, a normal profit should be determined as if the mine had been operated in a normal manner during the base-period years.

Third. The foregoing provisions should be limited solely to mining profits. No increased allowance should be made with respect to profits from other than the mining operations. The normal profit from mining operations should be added only to such credit for base-period earnings or invested capital as is properly allocable to operations or investments other than mining.

Such an amendment was offered by me in the committee and was referred to the Treasury Department. The Treasury Department said the matter was very technical, and would require considerable study; that they thought perhaps it could be brought up later, at a time when technical matters pertaining to the administration of the taxation problem would be before the Congress; and so action was postponed by the Finance Committee on the amendment I offered.

I ask unanimous consent to insert in the RECORD at this point a letter from Mr. John L. Sullivan, Assistant Secretary of the Treasury, with respect to this matter.

The PRESIDING OFFICER. Without objection, it is so ordered.

The letter is as follows:

TREASURY DEPARTMENT,
Washington, September 2, 1941.

Hon. EDWIN C. JOHNSON,
United States Senate,
Washington, D. C.

MY DEAR SENATOR: In accordance with the action adopted by the Senate Finance Committee, I have requested that a study be made in this Department of the amendment that you submitted to H. R. 5417 wih reference to a credit based on the normal profit per unit of mining production. If, as a result of the study, any amendment of this character is deemed advisable, a provision will be drafted in time for insertion in the next revenue bill.

Sincerely,

JOHN L. SULLIVAN,
Assistant Secretary of the Treasury.

Mr. JOHNSON of Colorado. My amendment proposes to amend section 713 by adding a new subsection reading as follows:

"(h) Corporations engaged in mining—

"(1) A corporation engaged in the mining of natural deposits shall be entitled under this section (with respect to its mining operations) to an excess-profits credit equal to the normal profit per unit of production for its entire production during the taxable year, in addition to such other excess-profits credit as may be allowable under this subchapter which is properly allocable to its operations other than mining.

"(A) In the event that the taxpayer was actually in existence at the beginning of its base period and was, during all or a part of such base period, engaged, on a commercially profitable basis, in mining operations similar, except as to the volume of production, to those carried on during the taxable year, then the taxpayer's normal profit per unit of production during the base period (excluding the year or years in which there was a deficit in excess-profits net income) shall constitute the taxpayer's normal profit per unit of production for the purposes of this subsection. In computing such normal profit per unit, the adjustments provided by section 711 (b), so far as applicable, shall be made.

"(B) If the taxpayer was not in existence at the beginning of its base period, or if it was not, during all or a part of such base period, engaged, on a commercially profitable basis, in mining operations similar, except as to volume of production, to those carried on during the taxable year, then the normal profit per unit of production shall consist of the base period profit per unit of production which the taxpayer would have realized if it had been so engaged during such base period. Such normal profit per unit shall be computed by assuming that the taxpayer had sold in each year of the base period the number of units which it could have produced and sold, with due regard to the average prices and costs of operation prevailing in each base period year, except that the number of units assumed in such computation for any base period year shall not exceed the number of units sold in the taxable year.

"(2) The term 'base period' means, for the purposes of this subsection, the base period as elsewhere defined in this subchapter, but if the base period of a taxpayer is not elsewhere so defined, in such case the term 'base period' means the calendar years 1936 to 1939, inclusive.

"(3) This subsection shall not apply if the excess-profits credit computed under section 713, without the application of this section, or under section 714, exceeds the amount of the credit computed under this subsection."

The reasons back of this amendment are, briefly stated, as follows:

First. Mining companies as a rule did not have sufficient base-period income to serve as a sufficient credit for excess-profits taxes.

Second. The prices of metals have been stabilized at a figure very little, if any, above the average prices over a period of 40 years. The industry is cooperating willingly in keeping prices of metals down during the emergency. There is no profiteering in the mining industry in the West.

Third. The defense authorities are urging increased production of metals in order to meet requirements for weapons, plant expansions, and civilian demands.

The result of this combination is that if the mining companies increase production by taking out more units during the emergency than over the base period, they will receive but little above the base period price per unit, and yet the profits, because of increased production, will be considerably greater. The mining industry must use up its capital in its production of units of metals taken out under these conditions, and the capital can never be replaced. It differs from the ordinary industrial enterprise in this respect. At the end of the emergency the mine operator, because of his willingness to comply with the request of the Government for increased production, may see his mine exhausted.

Accordingly, I have urged an amendment to H. R. 5417 which would permit a credit based upon the normal profit per unit of mine production. That is, increased profits would not be subject to excess-profits taxes unless there were an increased price per unit of production. The following example will demonstrate what I am asking for:

If the normal production of a mine was 10,000 tons of ore for a normal profit of $2 per ton the mine would have a total profit of $20,000. If because of the need for metals for defense purposes production were stepped up to 15,000 tons at the same rate of profit—namely $2 per ton—the mining company would have a profit of $30,000. Under the proposed amendment, it would be recognized that this represents only a normal profit on the units produced and that $30,000 would not be subject to excess-profits tax. If, on the other hand, the profit realized on the 15,000 tons were to be $3 per ton or $45,000, the increased profit of $1 per ton, or $15,000, would be taxed as excess profits.

The Treasury Department has promised that this very just demand upon the part of the mining industry will receive study, and that, if deemed advisable, the amendment will be drafted in time for insertion in the next revenue bill. I wish it understood that I shall urge this amendment both as a matter of justice to an industry which is essential to our national defense and as a means of increasing the production which is so sorely needed during this emergency.

Mr. DANAHER. Mr. President, on the night of June 19, this year, House bill 4926 was before the Senate. It was a bill making appropriations for the Department of Labor, the Federal Security Agency, and related independent agencies, for the fiscal year ending June 30, 1942. The measure was approved by the President on July 1, 1941.

When that bill came to the Senate from the House of Representatives, the law then on the books pertaining to the control of the unemployment compensation service and the unemployment service in the several States followed a declaration by the Congress in the 1940 law which read, insofar as it is pertinent to the present discussion:

Provided, That in case any State employment service is found unable to render adequate service in connection with the fulfillment of this program this appropriation shall be available subject to the approval of such Administrator—

That is, the Federal Security Administrator—

for the maintenance of special employment facilities and services.

There was no hearing on the point to which I am about to advert, it was not before the House of Representatives, it was not brought before the Committee on Appropriations of the Senate, it was not brought before the subcommittee handling the bill, but as the RECORD will show—and I now will read from page

5307—an amendment was offered. Let me read the amendment by which the proviso which I have just previously read from then existing law was eliminated, and in lieu thereof there was substituted the following:

Provided further, That such portion of this appropriation as may be necessary shall be available to the Social Security Board for all necessary expenses incurred by the Board, including personal service in the District of Columbia—

Mr. President, notice these words—

and elsewhere, in connection with the operation of employment-office facilities and services essential to expediting the national-defense program.

Mr. President, there was no explanation whatever to the Senate, there was none to the Congress at any time, nor was there any notice to the various State employment services operating throughout the various States. They had no notice whatever that any such pending proposal was to be submitted. Quite the contrary; those who had made inquiry as to whether there was any possibility of such a thing eventuating in the Congress, through some means or other were dissuaded from pursuing their inquiries. The net result was that, without any notice whatever to the Congress, this legislation was attached to an appropriation bill, and fundamentally the entire program of administration of the State employment services was altered by the insertion of the two words "and elsewhere."

The Federal Security Administration, acting under the two words "and elsewhere," has already gone into at least one State, I believe has already contemplated going or negotiated about going into the State of the chairman of the Committee on Finance, the Senator from Georgia [Mr. GEORGE], and there are other States to which the Federal Security Administrator has come, by virtue of the words "and elsewhere," seeking to obtain and claiming to have jurisdiction over the administration of unemployment service within those States

In view of the fact that there are payroll deductions in the several States for the maintenance of the services, and in view of the fact that the maintenance of the services within the States has always been a matter of State control, the unfair interposition of those two words "and elsewhere" has wrought a fundamental change in the law without any notice whatever to the Congress.

Because of the nature of that particular result, I have offered the pending amendment, which would as Senators will notice, strike out, that is by way of repeal, the words "and elsewhere" in connection with the operation of the employment facilities and services essential to expediting the national-defense program.

It in no way inveighs against the operation of the Federal Security Administrator in Washington, it will not in any way affect the service he has heretofore rendered. All it will do will be to wipe out the claim to jurisdiction in the several States under the words "and elsewhere."

I have discussed the matter briefly with the Senator from Georgia, as last night I suggested might be a feasible way to approach the problem, and I believe that what I have had to say will be a sufficient record notice to those interested to realize what has been and is being done by way of the language to which I object.

Mr. GEORGE. Mr. President, as chairman of the Committee on Finance, so far as I may do so I have no objection to the acceptance of the amendment to go to conference. It may not be entirely germane to the tax bill, but it is germane in a degree to the last amendment offered to the bill. I hope, therefore, that the Senate will accept the amendment, and let it go to conference.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Connecticut to the amendment of the committee.

The amendment to the amendment was agreed to.

The amendment as amended was agreed to.

Mr. ANDREWS. Mr. President, in explanation of the amendment just agreed to, which I aided in drafting, and which becomes title VII, providing for credit against Federal unemployment taxes, I ask that those portions of pages 56 and 57 of the majority report filed by the Senate Committee on Finance be printed at this point in the RECORD to show the reasons for including title VII in the bill.

There being no objection, the matter was ordered to be printed in the RECORD, as follows:

TITLE VII—CREDIT AGAINST FEDERAL UNEMPLOYMENT TAXES

SEC. 701. Credit against Federal unemployment taxes.

This section, added by your committee to the House bill, allows further time within which a taxpayer may pay contributions into an unemployment fund under a State law and obtain credit therefor against the Federal unemployment tax for 1936, 1937, 1938, 1939, or 1940.

In each of the past 3 years a similar provision of law has been enacted. However, since this tax has been in effect for more than 5 years, a period in which taxpayers have had ample opportunity to familiarize themselves with the time limitation provided in the permanent law and to take advantage of prior relief legislation, your committee states that this relief legislation should be the last of its kind to be enacted.

Under subsection (a), paragraph (1), credit is allowable against the tax for 1936, 1937, or 1938, imposed by title IX of the Social Security Act, for contributions paid before the sixtieth day after the date of enactment of this act, if credit is claimed before the expiration of 6 months after such date of enactment. If the contributions are paid on or after December 7, 1940 (the sixtieth day after the date of enactment of the Second Revenue Act of 1940, containing similar relief provisions in section 701 thereof), the credit on account of such contributions is limited to 90 percent of the amount which would have been allowable if they had been paid before the due date of the Federal return. Paragraphs (2) and (3) provide in certain special cases for the allowance of credit, which is not subject to the foregoing limitations. These paragraphs continue without curtailment the relief heretofore granted in these cases by section 902 (a) (2) and (3) of the Social Security Act amendments of 1939 and section 701 (a) (2) and (3) of the Second Revenue Act of 1940.

Subsection (b) provides similar relief in the case of the tax for 1939 or 1940 imposed by the Federal Unemployment Tax Act (subchapter C, chapter 9, Internal Revenue Code).

Subsection (c) provides for refunds, credits, and abatements, without interest, based on the credit allowable under subsections (a) and (b). It also provides that on and after the date of enactment of this act no refund, credit, or abatement shall be allowed which is based on any credit allowable under certain prior relief legislation; that is, section 810 of the Revenue Act of 1938, section 902 (a) of the Social Security Act amendments of 1939, and section 701 of the Second Revenue Act of 1940. This section does not affect any credit for contributions paid which is allowable solely by reason of the provisions of section 902 of the Social Security Act or section 1601 of the Federal Unemployment Tax Act.

Mr. BARKLEY. Mr. President, I inquire what is the business pending before the Senate?

Mr. ADAMS. Mr. President——

Mr. GEORGE. If I may say so, we have come to the last committee amendment to the bill, and it is the only committee amendment to be offered, so far as I am now advised, although there are some technical amendments which the Treasury and the staff will desire to offer before the consideration of the bill is finally concluded. The sole remaining amendment is the one on page 32, relating to the taxing of community-property income. I ask that that amendment be laid before the Senate so that it may be pending.

Mr. ADAMS. Let me make a statement to the Senator from Georgia as to my situation. As a matter of duty I shall be compelled to leave town tonight to attend the funeral of the late Representative TAYLOR, of Colorado. Would it be possible for me to submit an amendment at this time, so that I may present it?

Mr. GEORGE. It is quite agreeable. I merely ask that the amendment to which I have referred be laid before the Senate, not for the purpose of discussion. If the Senator will allow the amendment to be stated merely by title, then he may proceed.

The PRESIDING OFFICER. The amendment will be stated.

The CHIEF CLERK. On page 32, after line 3, it is proposed to insert the following:

SEC. 119. Community income.

The Internal Revenue Code is amended by inserting after section 28 the following new section:

"SEC. 29. Community income.

"For the purpose of determining the income-tax liability of any individual:

"(a) Income earned by each spouse (whether or not treated as community property under the State law) shall be considered as the income of the earner thereof.

"(b) Income derived from property of the marital community (except such property as constitutes either income derived from the separate property of either spouse or property acquired therewith) shall be considered as the income of the spouse who has the management and control thereof under the law of the jurisdiction in which the marital community exists.

"(c) In case the spouses elect to file separate returns, the spouse required under this section to treat such income as his individual income shall alone be entitled to the deductions and credits allowed under this chapter which are properly allocable to such income."

Mr. McCARRAN subsequently said: Mr. President, I ask that there be in-

serted in the RECORD immediately following the remarks of the Senator from Georgia [Mr. GEORGE], so it may be before the Senate, a letter addressed by me to Representative Fred M. Vinson, chairman of the subcommittee of the Committee on Ways and Means of the House of Representatives, of date September 15, 1937, bearing on the subject of the amendment which is to be considered tomorrow. I ask that the letter be inserted in the RECORD in full.

The PRESIDING OFFICER (Mr. SMATHERS in the chair). Without objection, it is so ordered.

The letter is as follows:

UNITED STATES SENATE,
COMMITTEE ON APPROPRIATIONS,
Washington, D. C., September 15, 1937.

Hon. FRED M. VINSON,
Chairman of Subcommittee,
Ways and Means Committee,
House of Representatives,
Washington, D. C.

MY DEAR CHAIRMAN VINSON: On some occasions in the past the press has carried expressions indicating that there are those in your committee and elsewhere who might be of the opinion that the citizens of community-property States were chargeable with a so-called loophole through which taxes in these States might be escaped. I understand that your subcommittee may investigate the matter of income taxes in community-property States, and I desire to submit to you some of my views on the subject, resisting as I do any change of policy.

First, may I say that Nevada is one of the community-property States, the others being Louisiana, Arizona, California, Texas, Idaho, New Mexico, and Washington.

Under the community-property law either spouse in a marital status has a vested property right in all of the community property, including the income therefrom, likewise in the salary or wages of either husband or wife.

The question involved in community property in the United States is both historic and statutory in its origin. The historical side of this question is most interesting and students of the subject who have given us the benefit of their study and writings have thrown much light and clarification on the matter.

A cursory reading of the history would lead one to believe that the community-property law was of Spanish origin, but a more persistent study leads one to the conclusion that the law, as we know it in the western world, is of Germanic origin and is the result of the evolution of early Germanic customs and forms into laws regulating family relations. These customs and laws, according to our best authorities, were carried into Spain by tribal and Visigothic movements in the early Christian centuries and were implanted in the Spanish peninsula on the occasion of the conquest of that part of Europe.

We find the early community-property law emphaticaly set out in the Code of Euric as the same was made, through conquest of territory, the law of early Spain; and we find this early code followed by the Spanish law or code called Fuero Juzgo. The law itself took on various forms during the Spanish succession, but at no time did it lose its original nature nor its original method of operation. For instance, we find the law set out in 1506 in a Spanish codification entitled "Cortes of Toro." Another code promulgated by Philip the Second in 1567 and another put forth by Charles the Second of Spain in 1680, each in turn carried the emphatic expression "law of community property," as we now term it, which laws and codes in general terms made clear distinction between the property of the husband, the property of the wife, and property acquired or accumulated by the community coverture.

Briefly stated, the law of Spain, as we find it passing down through its history, became the law of the Spanish territory in the western world. The code called the Cortes of Toro published in 1506, and the code Nueva Recopilacion of 1567, and the code of 1680 published by Charles the Second of Spain and styled Recopilacion de Indies, all made emphatic pronouncements that in the territories under the Spanish flag th laws of Castile must be observed. It was in this way that the civil law of Spain became a part of the law of Spanish America; and hence the law governing conjugal property, or, as we term it, community property, became the law of Mexico and remained so with varying local changes until the independence of Mexico was achieved in 1821.

The spirit of the community-property law, as it was recognized in Mexico, is fairly stated in a publication having a date as late as 1888, in which the Mexican commentator expresses himself thus [translation]:

"There being common to both consorts the hardships and sufferings which life brings with it and together equally dividing the sacrifices and efforts necessary to overcome them, it is just and natural that there be likewise common the profits which may come to the consorts, basing itself solely on this, without regard to the greater or less wealth which either of the consorts may bring to the marriage."

I will not attempt to burden you with the distinction that will be found in organic and statutory laws of the respective States of the Union, as, for instance, the law of Louisiana may differ from the law of California, each being community-property States, the former having both French and Spanish flavor; and in turn the law of Washington may differ from that of other States, but in essentials they take their spirit from the same source. My purpose in dealing primarily with the history of the law of community property is to emphasize to you and to your committee that the States in which community-property law exists acquired that law from the original sovereignty controlling the territory out of which these States were respectively formed, or from the civil law, as distinguished from the common law. For example, I respectfully draw your attention to the history of the law of the State of Texas, in which we find the rule of community property prevailing, because when Texas became independent from Mexico and came into the United States, that State retained her laws of community property while at the same time she adopted the common law in almost every other respect.

The Treaty of Guadalupe Hidalgo, closing the Mexican War, brought to the United States the territory now embraced within the States of New Mexico, Arizona, California, Idaho, and Nevada, in all of which territory and the States carved out of the same, the law of community property, as it had prevailed under the rule of Mexico, and as the same had been transmitted to Mexico by the parent country, Spain, was retained. In nearly every one of these States, when they became States, the common law was adopted, but notwithstanding the adoption of the common law, the wife's status in respect to matrimonial property was excluded and her rights in such property as they existed under the Spanish and Mexican domination, were recognized, retained, and protected. In this respect I would draw your attention to the decisions of the Supreme Court in the case of *Botiller* v. *Dominquez*, 130 U. S. 238; *La Tourette* v. *La Tourette*, 15 Arizona 200; and *Blum* v. *Wardell*, 270 Federal 309.

It might be at the hazard of your patience were I to go into the detail of the law applicable to the several States in which the community-property law exists. Suffice it to say that in Louisiana, by reason of its history, the territory first being under French dominance, later under Spanish, and still later under French dominance, we find the Code Napoleon, so styled, combined with the Spanish Codes and again modified by statutory provision when the State became a part of the Union. Nevertheless, we find the community-property law existent.

In Texas and California, the territory being originally a part of the territory of Mexico, we find the community system of Spain and Mexico carried to a great extent into the organic law and provisions for its operation made by statutory enactment. In the States of New Mexico, Arizona, and Nevada the community-property law exists almost in its purity, as it existed under the Mexican sovereignty.

A decision rendered by the Supreme Court of the State of California entitled "In re Moffitt's Estate" has been almost unanimously repudiated not only by the very court that rendered it but by other courts and commentators as well (the California courts were in complete disruption due to the catastrophe of fire and earthquake). There the court made the following startling announcement:

"That the interest of the wife in the community property during the lifetime of her husband is only an expectancy and that on his death she takes it as an heir."

This decision was repudiated by the courts of California in a later case of *Stewart* v. *Stewart* (249 Pac. 197). The act of the Legislature of California might also be construed as repudiation.

The Supreme Court of Nevada—the State I represent—refused to follow the Moffitt case when it rendered the decision in the matter of the Estate of Warren Williams, which decision is now the ruling case in that jurisdiction, and to which I hereafter refer.

The States of Florida, Missouri, Arkansas, Iowa, and Mississippi, in which either the Spanish community-property law or the French community-property law originally prevailed, have adopted the common law. Louisiana, however, retains to this day the spirit of the Spanish law modified by the Code Napoleon.

Nevada, like other Western States, retained the spirit of the Spanish law as the same prevailed when the territory was ceded to the United States, and we find in the Constitution of Nevada the provision:

"All property, both real and personal, of the wife, owned or claimed by her before marriage, and that acquired afterward by gift, devise, or descent, shall be her separate property; and laws shall be passed more clearly defining the rights of the wife in relation, as well to her separate property, as to that held in common with her husband. Laws shall also be passed providing for the registration of the wife's separate property."

The statutes of Nevada carry out the full spirit and intent of the organic law and the full spirit and intent of the law of community property, as the same existed in the territory embraced within the confines of the State when that territory was a part of the Mexican possessions.

As a member of the court of last resort of the State of Nevada, it was my privilege to make a special study of this subject and to write the opinion and decision of that court in the matter of the *Estate of Warren W. Williams, Deceased* (40 Nev. 241), and in the opinion the court dwelt at length with the subject of community property, its nature and existence. This opinion took into consideration the history of the law of community property and the constitutional and statutory provisions of the State, and there we took occasion to express:

"From all our statutory enactments bearing upon the subject of the relation of husband and wife, and especially from those

having to do with the acquisition, retention, and disposition of community property, we are unable to arrive at a conclusion that the constitution framers and the legislature, in establishing the community system and in promulgating the laws defining the rights of husband and wife as to property thus held, intended other than that the wife should have an interest in the property acquired by the joint efforts of the community, which interest, while it should remain in a sense indistinguishable during the existence of the community, was nevertheless a property interest of which she was, at all times, possessed."

And again we said:

"It may, we think, be asserted, supported by the great weight of authority, that the interest of the wife in the community property and her title thereto, is no less than that held by the husband, and is such a title in the wife as not to be regarded as a mere expectancy."

The Attorney General in response to the inquiry of the Department concluded as to all community property States, including Arizona, Louisiana, Washington, Idaho, New Mexico, and Nevada, that "The husband and wife domiciled therein, in rendering separate income-tax returns, may each report as gross income, one-half of the income which, under the laws of the respective States, becomes simultaneously with its receipt, community property." (Opinion of Attorney General, 32, p. 435.)

The Supreme Court of the United States has announced the rule that where the State decisions have interpreted State laws governing property or controlling relations that are essentially of a domestic and State nature, such decisions will be followed if possible (*Warburton* v. *White*, 176 U. S. 484).

It is scarcely necessary for me to draw your attention to the ruling of the Internal Revenue Department which is, as I understand it, in substance that the rule of separate returns by husband and wife as to community-property earnings, is to be applied as the law is construed by the courts of last resort of the respective community-property States.

In the case of *Poe* v. *Seabury* (282 U. S. 101), Mr. Justice Roberts speaking for the Supreme Court as to the right of the husband and wife to make separate returns under the community-property law of Washington said: "* * * it must suffice to say that it is clear the wife has in Washington a vested property right in the community property, equal with that of her husband, and in the income of the community including salaries or wages of either husband or wife, or both."

I trust that I will not have taxed your patience in this rather lengthy communication, but that by expressing myself as I have here, I may emphasize the fact that any attempt on the part of Congress to interfere with the present rule permitting husband and wife to make separate tax returns each reflecting one-half of the community income, will be resisted by everything within my power, and I know that in this I will be joined by the other community-property States.

If the community-property States of the Union see fit to extend to married women more definite and certain rights in the earnings and accumulations of the community effort, certainly it is not the part of justice and fair play that these States, while extending these rights to their citizens, shall be punished therefor, or compelled to abandon their laws, the policy of which is even older than the States themselves, nor that the Federal Government shall construe the law other than as the same has been construed by the courts of last resort of those respective States and by the Supreme Court of the United States.

In conclusion:

The law of community property came to the States as a part of the law of the land before they were States.

The law of community property was written into the organic law of the States, approved by Congress when the States were admitted into the Union.

The legislatures of the States enacted laws carrying out the spirit of the law as it had existed and as their constitutions pronounced.

The courts of the States have applied and construed the law of community property in keeping with the spirit of its fundamental principle.

The Supreme Court of the United States has recognized the fundamentals and laws of the States and has repronounced the doctrine as it was in the beginning.

Under the community-property law the husband and wife respectively have and hold each a vested right in and to one-half of the property acquired by community effort and the accretions thereof, including wages and salaries—this is a legal fact, not a fiction.

Under the community-property law and in community-property States the husband and the wife may each file returns reflecting as taxable income one-half of the whole income of the community established by their marital status.

Any attempt on the part of Congress to change this condition as crystallized into the laws of the respective States would be a discrimination and otherwise unconstitutional.

Thanking you for your courtesy in this matter, I am,

Sincerely yours,

PAT MCCARRAN.

NOTE.—The Supreme Court of the United States in the case of *Hoeper* v. *The Tax Commission* (284 U. S. 206), held in no uncertain terms that a tax based on an enforced joint return is illegal, arbitrary, and capricious. In this decision it will be noted that the Court, although dealing with the statute of the State of Wisconsin, did not hesitate to quote the case of *Knowlton* v. *Moore* (187 U. S. 41), which in turn dealt directly with a Federal statute.

Mr. ADAMS. Mr. President, a problem has arisen in connection with the interpretation of the revenue code as to deductions. It had been commonly understood that all the expenses of the taxpayer in connection with his business affairs were deductible. The language of the statute is that there may be deducted—

all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business.

I can illustrate the question which has arisen by the case of a woman in my State who by reason of inheritance had come into possession of a certain amount of stocks and bonds. She was buying defense bonds and other Government bonds. She lacked the business ability to manage her financial affairs, and employed a secretary to look after these purchases for her, to keep her income-tax data, and to make the return. The Supreme Court of the United States has interpreted the clause which I read as denying the right of deduction in such cases. They have said that the only deduction which can be made is when the taxpayer is actually engaged in some business. That if the taxpayer is merely looking after his own business affairs he may not deduct expenses necessarily incurred in looking after his own business affairs. In other words, if the taxpayer is running a fruit stand or a grocery store and employs someone to keep his books, he may deduct that expense. On the other hand, if he is buying stocks and Government bonds for his own use the expenses of his secretary and accountant may not be deducted.

Mr. GEORGE. Mr. President, will the Senator yield?

Mr. ADAMS. I yield.

Mr. GEORGE. I presume the Senator is offering an amendment, or intends to offer an amendment.

Mr. ADAMS. I have the amendment on the desk and I wish to offer it.

Mr. GEORGE. The Senator wishes to offer an amendment to correct or at least to change the effect of the ruling in the Higgins and other similar cases?

Mr. ADAMS. Yes.

Mr. GEORGE. I do not think there is any doubt that the Treasury is agreed that some relief should be given in the situation described by the Senator from Colorado. The Finance Committee did not take up that matter and many other similar matters which might well have been corrected, because it is intended to bring into the House at a reasonably early date an administrative bill containing many administrative amendments and technical amendments to the various provisions of the revenue laws, at which time it is intended to cover exactly the situation which the Senator from Colorado has in mind.

Mr. ADAMS. Mr. President, would the Senator be willing for the Senate to agree to this amendment so that it may be further considered in conference?

Mr. GEORGE. I would be very happy to do so. I have not seen the amendment. But I wish to explain to the Senator that the House Committee on Ways and Means did not consider all what might be called technical amendments or administrative amendments, and very naturally the conferees on the part of the House will not be disposed to consider, or to consider favorably, amendments which Senators on the committee desired to offer for themselves or on behalf of many of their colleagues, and were dissuaded from doing so because of the certainty that the other bill to which I have referred would come before the Senate and give them an opportunity to present such amendments.

Mr. ADAMS. The Senator will recognize that, while in one sense this amendment is technical, it is in another sense of substantial importance to many taxpayers.

Mr. GEORGE. I have not had a chance to read the amendment. I understand what the Senator has in mind, and the Senator, as I understand, is compelled to leave the city on account of the death of Representative TAYLOR.

Mr. ADAMS. I am compelled to leave the city tonight for Colorado.

Mr. CONNALLY. Mr. President, the Sergeant at Arms has just advised me that the date has been changed, and Senators and Representatives will leave tomorrow night for Colorado.

Mr. GEORGE. If that is so, I wish the Senator from Colorado would permit his amendment to lie over, if that is agreeable to him.

Mr. ADAMS. Yes; and the amendment will be printed, so it will be available tomorrow.

Mr. GEORGE. I will discuss the matter with the Senator tomorrow.

Mr. CONNALLY. The Senator from Texas would like to say to the Senator from Colorado that the Senator from Texas brought this identical matter up in the Committee on Finance. It was agreed by the Treasury Department that the situation ought to be corrected, it was agreed to by the committee that it ought to be corrected, and it was in general agreement that the correction should be made. I have not read the Senator's amendment, but, as I understand, it is presented because of the ruling made by the Supreme Court in the Higgins case and two other cases which I cited to the committee. As the Senator from Georgia stated, it was unanimously agreed by everybody that this correction would be made when we took up the administrative bill. I am not against the amendment proposed by the Senator from Colorado. I insisted on it being included in the bill, but the committee voted me down.

Mr. ADAMS. Mr. President, the Senator agrees that if there is something which needs correcting, and something that should be done for the benefit of the taxpayers, we should do it.

Mr. CONNALLY. I was about to say how much more effective the Senator from Colorado probably will be with the whole Senate than the Senator from Texas was with the Finance Committee.

Mr. ADAMS. I wish that could be true.

Mr. CONNALLY. The Senator from Texas has had very poor success with the Finance Committee.

Mr. ADAMS. The Senator from Texas had some other matters which occupied him a good deal, I think.

Mr. BARKLEY. Mr. President, I desire to move to lay on the table the motion of the Senator from Illinois [Mr. LUCAS] to reconsider the vote by which the committee amendment on page 105, as amended by the amendment offered by the Senator from Nevada [Mr. BUNKER], was adopted.

Mr. CLARK of Missouri. Mr. President, I suggest the absence of a quorum.

Mr. BARKLEY. I do not suggest that that motion be acted upon, but that the motion be pending tomorrow. That motion is made.

The PRESIDING OFFICER (Mr. BUNKER in the chair). The question is on agreeing to the——

Mr. BARKLEY. No, no; I am not asking that the motion be agreed to now. I make the motion so that it will be the pending motion when we meet tomorrow.

The PRESIDING OFFICER. Without objection, action on the motion will be postponed until tomorrow.

CONFIRMATION OF POSTMASTER NOMINATIONS

Mr. BARKLEY. Mr. President, I ask unanimous consent that as in executive session, the nominations on the Executive Calendar be now considered.

The PRESIDING OFFICER. Without objection, it is so ordered. The clerk will state the nominations on the calendar.

The legislative clerk proceeded to read the nominations of sundry postmasters.

The PRESIDING OFFICER. Without objection, the nominations of postmasters are confirmed en bloc.

DEATH OF REPRESENTATIVE TAYLOR, OF COLORADO

The PRESIDING OFFICER laid before the Senate the following resolution (H. Res. 301) from the House of Representatives, which was read:

IN THE HOUSE OF REPRESENTATIVES,
September 4, 1941.

Resolved, That the House has heard with profound sorrow of the death of Hon. EDWARD T. TAYLOR, a Representative from the State of Colorado.

Resolved, That a committee of 25 Members of the House with such Members of the Senate as may be joined be appointed to attend the funeral.

Resolved, That the Sergeant at Arms of the House be authorized and directed to take such steps as may be necessary for carrying out the provision of these resolutions and that the necessary expenses in connection therewith be paid out of the contingent fund of the House.

Resolved, That the Clerk communicate these resolutions to the Senate and transmit a copy thereof to the family of the deceased.

Resolved, That as a further mark of respect the House do now adjourn.

Mr. ADAMS. Mr. President, I send to the desk a resolution, which I ask to have read, and for which I ask present consideration.

The PRESIDING OFFICER. The resolution will be read.

The resolution (S. Res. 160) was read, considered by unanimous consent, and unanimously agreed to, as follows:

Resolved, That the Senate has heard with profound sorrow the announcement of the death of Hon. EDWARD T. TAYLOR, late a Representative from the State of Colorado.

Resolved, That a committee of five Senators be appointed by the Presiding Officer to join the committee appointed on the part of the House of Representatives to attend the funeral of the deceased Representative.

Resolved, That the Secretary communicate these resolutions to the House of Representatives and transmit a copy thereof to the family of the deceased.

Under the second resolving clause, the Presiding Officer appointed the Senators from Colorado [Mr. ADAMS and Mr. JOHNSON], the Senator from New Mexico [Mr. CHAVEZ] the Senator from Nevada [Mr. BUNKER], and the Senator from Utah [Mr. MURDOCK] the committee on the part of the Senate to join the committee on the part of the House to attend the funeral of the deceased Representative.

Mr. ADAMS. Mr. President, as a further mark of respect to the memory of the deceased Representative, I move that the Senate take a recess until 11 o'clock a. m. tomorrow.

The motion was unanimously agreed to; and (at 5 o'clock and 32 minutes p. m.) the Senate took a recess until tomorrow, Friday, September 5, 1941, at 11 o'clock a. m.

CONFIRMATIONS

Executive nominations confirmed by the Senate September 4 (legislative day of September 2), 1941:

POSTMASTERS

INDIANA

Albert L. Dobbs, Greencastle.
Effie M. Pugh, Upland.

OHIO

Helen E. Doubrava, Twinsburg.

WEST VIRGINIA

Harold E. Starcher, Ripley.

HOUSE OF REPRESENTATIVES

THURSDAY, SEPTEMBER 4, 1941

The House met at 12 o'clock noon and was called to order by the Speaker pro tempore, Mr. WOODRUM of Virginia.

The Chaplain, Rev. James Shera Montgomery, D. D., offered the following prayer:

Our Heavenly Father, hide the gloom of the present through the gladness of Thy promise. "I will go with Thee all the way." A most distinguished servant of our country and a brother beloved has left us. He has woven by the light of many long and laborious years the fadeless garment of a most honorable service and has entered the Sabbath of rest. We praise Thee that Thou hast a palm for peace in sorrow, a wreath for the withered hand, and a mansion for music in the darkness. Weeping may endure for a night, but joy cometh in the morning. Through Jesus Christ our Lord. Amen.

The Journal of the proceedings of Monday, September 1, 1941, was read and approved.

EXTENSION OF REMARKS

Mr. JACOBSEN. Mr. Speaker, I have two unanimous-consent requests to submit: First, that the gentleman from West Virginia [Mr. RANDOLPH] may extend his own remarks in the RECORD and include therein a certain editorial, and, second, that I may extend my own remarks in the RECORD and include therein an article from World's Work of January 1932, commenting on Artemus L. Gates, who has just recently been appointed and confirmed as Assistant Secretary of the Navy for Aeronautics.

The SPEAKER pro tempore. Without objection, it is so ordered.

There was no objection.

Mr. WOODRUFF of Michigan. Mr. Speaker, I ask unanimous consent that my colleague the gentleman from Michigan [Mr. HOFFMAN] may extend his own remarks in the RECORD and include therein an editorial from the Chicago Tribune.

The SPEAKER pro tempore. Without objection, it is so ordered.

There was no objection.

Mr. WOODRUFF of Michigan. Mr. Speaker, I also ask unanimous consent that the gentleman from New York [Mr. FISH] may be permitted to extend his own remarks in the RECORD.

The SPEAKER pro tempore. Without objection, it is so ordered.

There was no objection.

Mr. WOODRUFF of Michigan. Mr. Speaker, I ask unanimous consent to extend my own remarks in the RECORD and to include therein a letter from a constituent.

The SPEAKER pro tempore. Without objection, it is so ordered.

There was no objection.

Mr. WOODRUFF of Michigan. Mr. Speaker, I also ask unanimous consent to extend my own remarks in the RECORD and to include as part of those remarks an article by Arthur Krock in the New York Times.

The SPEAKER pro tempore. Without objection, it is so ordered.

There was no objection.

Mr. WOODRUFF of Michigan. Mr. Speaker, I ask unanimous consent to extend my own remarks in the RECORD.

The SPEAKER pro tempore. Without objection, it is so ordered.

There was no objection.

Mr. MASON. Mr. Speaker, I have several unanimous-consent requests to submit: First, that my colleague the gentleman from Illinois [Mr. DIRKSEN] may have permission to extend his own remarks in the RECORD; second, that my colleague the gentleman from Illinois [Mr. DAY] may extend his own remarks in the RECORD; third, that the gentleman from Pennsylvania [Mr. VAN ZANDT] may be permitted to extend his own remarks in the RECORD on two subjects.

The SPEAKER pro tempore. Without objection, the requests will be granted.

There was no objection.

(Mr. VREELAND and Mr. LAMBERTSON were given permission to extend their own remarks in the RECORD.)

Mr. COCHRAN. Mr. Speaker, I have three unanimous-consent requests to submit: First, that the gentleman from Texas [Mr. MANSFIELD] may extend his own remarks in the RECORD; second, that the gentleman from Michigan [Mr. DINGELL] may extend his remarks in the RECORD and include therein a radio address; and, third, that the gentleman from Massachusetts [Mr. MCCORMACK] may extend his remarks in the RECORD and include therein a speech delivered by the Honorable Paul McNutt.

The SPEAKER pro tempore. Without objection, the request will be granted.

There was no objection.

Mr. DICKSTEIN. Mr. Speaker, I ask unanimous consent to extend my own remarks in the RECORD and include therein a radio speech I made over a National Broadcasting hook-up on August 27, last.

The SPEAKER pro tempore. Without objection, it is so ordered.

There was no objection.

Mr. DICKSTEIN. Mr. Speaker, I also ask unanimous consent to extend my own remarks in the RECORD on Generoso Pope, and to include therein two editorials, one from some fascistic paper attacking him for the patriotic stand he has taken in his paper, and the other from the New York Times of August 14 praising him.

The SPEAKER pro tempore. Without objection, it is so ordered.

There was no objection.

THE LATE EDWARD T. TAYLOR

Mr. COCHRAN. Mr. Speaker, it is a sad duty for me to announce to the House the death of our distinguished colleague, the Honorable EDWARD T. TAYLOR, of Colorado, my close personal friend for nearly 30 years.

Few men have a record of public service parallel with that of the gentleman from Colorado. For more than 56 years he has served his State and Nation in various public capacities. Of this period, his service in the Congress covered nearly 34 years, made up of 17 consecutive terms. He is the only Member ever to serve such a continuous period in Congress after passing his fiftieth birthday.

The gentleman from Colorado was a truly rugged American, typifying the experience and the character of the great West which sent him to these Halls. All of his mature life was spent in problems of the American public, State and Nation, to improve and protect our ways of democratic life.

His forward look was undimmed by the passage of the years. At the ripe age of 83 he had a youthful spirit and the broad outlook that would do credit to many a younger man. He believed firmly in a strong national defense and in the solidarity of our institutions. In these trying days we can ill afford to lose men of his caliber and his philosophy. He was truly one of the bulwarks of the Republic—a tower of strength and fortitude, who gave courage to all with whom he came in contact.

As you will recall, the House recently celebrated his eighty-third birthday with appropriate ceremonies. I wish every Member would read his remarks on that occasion. They are refreshing and inspiring. He recently compiled and there has been printed a history of the Committee on Appropriations, of which he was a member for 21 years, and over which he has presided as chairman for more than 4 years. To have been associated with him as a Member of this House is an honor which I am sure all of us who knew him will appreciate, and I know we will carry his memory with us in the years to come. Truly, he was an inspiration and a guide to many of us who have the ambition to follow in his footsteps in rendering service to his country and his party.

Prior to his entrance in the House he had served as county superintendent of schools in his home county, district attorney of northwestern Colorado, and State senator. He was the author of the basic water-right laws relating to the use of water for irrigation in the West, and his work in this field is still regarded as the basic principle upon which water rights are determined. Many other laws which bear his name were his thoughts, and time showed the wisdom of his efforts. He was the father of legislation that helped to develop the West. He has held virtually every post of the House of Representatives which was within the power of his party to bestow upon him.

Only a few days ago he decided that it was his duty to return to his district and visit his constituents. As you know now, this additional duty, which his conscience forced upon him, was too much, and he passed away in Denver last night before he had crossed the Continental Divide and reached his home in Glenwood Springs. His death came suddenly and in the active service of his people, as he would have wanted it to come.

We will all miss him, but we all know that he has passed on to that rich reward which he so justly deserved.

In the death of Mr. TAYLOR, not only his congressional district and State have lost an outstanding representative but the Nation as a whole is deprived of the counsel and wisdom of a most brilliant statesman.

Mr. LUDLOW assumed the chair as Speaker pro tempore.

Mr. COCHRAN. Mr. Speaker, I yield to the gentleman from Virginia [Mr. WOODRUM].

Mr. WOODRUM of Virginia. Mr. Speaker, our hearts were greatly saddened this morning when he received the news of the sudden passing of Mr. TAYLOR on his way back to his beloved home in Colorado, in the great West, which has so many times honored him and which in so many varied capacities he has served with credit and distinction.

Elected to this body 17 consecutive times, for aggregate terms of 34 years, he never had opposition within his own party. He was for 21 years a Member, 4 of which he served as chairman of the great Appropriations Committee, of which I have the honor to be a member, having served with him on that committee for the past 12 years. Mr. TAYLOR, in my judgment, was one of the most remarkable and one of the most colorful characters that has served in the House of Representatives during the 20 years I have been a Member.

He had a broad interest in everything that affected his country. Particularly, however, was he interested in the great problems of the West, which he understood, perhaps, as few men understood them, and for which he labored so splendidly and so effectively. During the critical times through which we have been passing in recent years, I know by close association that world events as they might affect our own country lay very heavily upon his heart. He felt very keenly and very vitally that America should with speed and dispatch arm for her own protection. Therefore during these past very hectic months, when our committee, and particularly the subcommittee of which he was chairman, the Deficiency Subcommittee, was called upon to have long and protracted hearings on defense matters, in spite of advancing years and in spite of some infirmity of health, Mr. TAYLOR was a regular attendant, active physically and alert mentally, as his participation in the hearings will disclose. Keenly interested in everything that was happening, we will miss him in this House, and he will be particularly missed in the Appropriations Committee. He assumed the chairmanship of that committee at the ripe age of 79, but he brought to the task a physical vigor and an understanding and a broad comprehensive knowledge and a legislative experience which have meant a great deal to the committee and which have

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77TH CONGRESS
1ST SESSION

H. R. 5417

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 4 (legislative day, SEPTEMBER 2), 1941
Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. BUTLER (for himself, Mr. BANKHEAD, and Mr. EASTLAND) to the bill (H. R. 5417) to provide revenue, and for other purposes, viz: At the proper place insert the following:

TITLE VIII

FATS, OILS, AND GREASES

SECTION 1. Paragraph 1 of the Tariff Act of 1930 is amended by inserting at the end thereof the following: "Fatty acids and salts derived from one or more of the oils named in paragraph 53 or 54, from inedible animal oils, fats, and greases, not specially provided for, from fish and marine animal oils, not specially provided for: all the foregoing, 6 cents per pound.".

SEC. 2. Paragraph 52 of such Act is amended to read as follows:

"PAR. 52. Oils, animal and fish: Sod, 5 cents per gallon; herring and menhaden, 3 cents per gallon; whale and seal, 6 cents per gallon; sperm, crude, 10 cents per gallon; sperm, refined or otherwise processed, 14 cents per gallon; spermaceti wax, 6 cents per pound; shark oil and shark-liver oil, including oil produced from sharks known as dogfish, 10 per centum ad valorem; edible animal oils, fats, and greases, 3 cents per pound; wool grease containing more than 2 per centum of free fatty acids, one-half cent per pound; containing 2 per centum or less of free fatty acids and not suitable for medicinal use, 1 cent per pound; suitable for medicinal use, including adeps lanae, hydrous or anhydrous, 3 cents per pound; all other animal and fish oils, fats, and greases not specially provided for, 3 cents per pound."

SEC. 3. Paragraph 53 (relating to duty on seed oils) of such Act is amended by striking out "rapeseed, 6 cents per gallon" and inserting in lieu thereof "rapeseed, 1½ cents per pound; kapok seed, 1½ cents per pound; perilla seed, 1½ cents per pound; sunflower seed, 1½ cents per pound; corn oil, 6 cents per pound".

SEC. 4. Paragraph 54 of such Act is amended to read as follows:

"PAR. 54. Coconut oil, 2 cents per pound; cottonseed

oil, 6 cents per pound; babassu oil, 6 cents per pound; peanut oil, 6 cents per pound; palm oil, 6 cents per pound; palm-kernel oil, 3 cents per pound; inedible sesame oil, 1½ cents per pound; all other sesame oil, 6 cents per pound; soybean oil, 6 cents per pound."

SEC. 5. Paragraph 57 (relating to mixtures of oils) of such Act is amended by striking out "25 per centum ad valorem, but not less than the rate applicable to the component material subject to the highest rate of duty" and inserting in lieu thereof "6 cents per pound".

SEC. 6. Paragraph 762 of such Act (relating to duty on oil-bearing seeds and nuts) is amended by striking out "sunflower seed, 2 cents per pound" and inserting in lieu thereof "sunflower seed, 1.725 cents per pound"; by striking out "soybeans, 2 cents per pound" and inserting in lieu thereof "soybeans, 1.098 cents per pound"; and by striking out "cottonseed, one-third of 1 cent per pound" and inserting in lieu thereof "cottonseed, 1.155 cents per pound; babassu nuts, 3.891 cents per pound; copra, 3.891 cents per pound; hempseed, 1.668 cents per pound; kapok seed, 1.326 cents per pound; palm nuts, 2.865 cents per pound; palm-nut kernels, 2.865 cents per pound; rapeseed, 2.295 cents per pound; perilla seed, 2.409 cents per pound; sesame seed, 2.865 cents per pound".

SEC. 7. Paragraph 1732 of such Act (relating to free

importation of inedible oils) is amended by striking out "palm-kernel, rapeseed, sunflower, and sesame".

SEC. 8. Paragraph 1727 of such Act is amended to read as follows:

"PAR. 1727. Tung nuts; rubber seed; seeds and nuts, not specially provided for, when the oils derived therefrom are free of duty."

SEC. 9. Paragraph 703 of such Act is amended by striking out "lard compounds and lard substitutes, 5 cents per pound" and inserting in lieu thereof the following: "lard compounds and lard substitutes, 6 cents per pound".

SEC. 10. Paragraph 701 of such Act is amended by striking out "tallow, one-half of 1 cent per pound" and inserting in lieu thereof "tallow, 3 cents per pound".

SEC. 11. (a) Paragraph 730 of such Act is amended by inserting at the end thereof the following new sentence: "Fish scrap, fish meal, marine animal scrap, marine animal meal three-tenth of 1 cent per pound."

(b) Paragraph 1780 of such Act is amended by striking out "fish meal".

SEC. 12. Section 2491 (d) of the Internal Revenue Code (relating to import tax on oil-bearing seeds) shall not apply to any article imported or withdrawn from bond for consumption or use after the date of the enactment of this Act.

SEC. 13. (a) Section 2470 (a) (1) of the Internal Revenue Code (relating to processing tax on oils) is amended by inserting at the end thereof the following new sentence: "The rate provided in this paragraph shall be 6 cents per pound if the article is produced in or from materials the growth or production of the Philippine Islands or any other possession of the United States.".

(b) The amendment made by subsection (a) shall apply only to articles brought into the United States from such possessions after the date of enactment of this Act.

TITLE IX

JUTE AND JUTE PRODUCTS

SEC. 21. Paragraph 1001 of the Tariff Act of 1930 is amended by inserting "(a)" before "Flax" and by inserting at the end thereof the following new subparagraph:

"(b) Jute, jute butts, waste bagging of jute, waste sugar sack cloth of jute, and jute waste not specially provided for, all the foregoing, 4 cents per pound."

SEC. 22. Paragraph 1617 of such Act is amended to read as follows:

"PAR. 1617. Waste bagging, not of jute, and waste sugar sack cloth, not of jute."

SEC. 23. Paragraph 1684 of such Act is amended by striking out "jute, jute butts,".

SEC. 24. Schedule 10 of such Act is amended by inserting at the end thereof the following new paragraph:

"PAR. 1024. All the articles enumerated or described in this schedule (except in paragraph 1001 (b)) shall be subject to an additional duty of 5 cents per pound on the jute contained therein."

TITLE X

STARCHES

SEC. 31. (a) Paragraph 83 of such Act is amended by inserting after "Starch:" the following: "Sago, crude, and sago flour, 2½ cents per pound; tapioca, tapioca flour, and cassava, 2½ cents per pound;".

(b) Paragraphs 1753 and 1781 (relating to free importation of sago, tapioca, and cassava) of such Act are repealed.

SEC. 32. Paragraph 84 of such Act is amended by inserting at the end thereof the following new sentence: "Dextrines made from sago or tapioca, 3½ cents per pound.".

TITLE XI

GENERAL PROVISIONS

SEC. 41. The amendments made by this Act shall be effective notwithstanding the terms of any foreign trade agreement heretofore or hereafter entered into under section 350 of the Tariff Act of 1930.

SEC. 42. The amendments to the Tariff Act of 1930 made by this Act shall apply to articles which, after the day following the date of enactment of this Act, are imported into the United States or withdrawn from bond for consumption or use.

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1ST SESSION

H. R. 5417

AMENDMENT

Intended to be proposed by Mr. BUTLER (for himself, Mr. BANKHEAD, and Mr. EASTLAND) to the bill (H. R. 5417) to provide revenue, and for other purposes.

SEPTEMBER 4 (legislative day, SEPTEMBER 2), 1941
Ordered to lie on the table and to be printed

77TH CONGRESS
1ST SESSION

H. R. 5417

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 4 (legislative day, SEPTEMBER 2), 1941
Ordered to lie on the table and to be printed

AMENDMENTS

Intended to be proposed by Mr. BAILEY to the bill (H. R. 5417) to provide revenue, and for other purposes, viz: On page 93, after line 2, insert the following new paragraph:

"(11) JEWELRY.—All articles commonly or commercially known as jewelry, whether real or imitation: pearls, precious and semi-precious stones, and imitations thereof; articles made of, or ornamented, mounted, or fitted with, precious metals or imitations thereof; watches and clocks and cases and movements therefor; gold, gold-plated, silver, silver-plated, or sterling flatware or hollow ware; opera glasses; lorgnettes; marine glasses; field glasses, and binoculars: 10 per centum. The tax imposed by this paragraph shall not apply to any article

used for religious purposes, to surgical instruments, to frames or mountings for spectacles or eyeglasses, or to a fountain pen if the only part of the pen which consists of precious metals is the point."

On page 93, strike out lines 14 to 25, inclusive, and page 94, strike out lines 1 to 4, inclusive.

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1ST SESSION

H. R. 5417

AMENDMENTS

Intended to be proposed by Mr. BAILEY to the bill (H. R. 5417) to provide revenue, and for other purposes.

SEPTEMBER 4 (legislative day, SEPTEMBER 2), 1941
Ordered to lie on the table and to be printed

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77TH CONGRESS
1ST SESSION

H. R. 5417

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 4 (legislative day, SEPTEMBER 2), 1941
Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. OVERTON (for himself and Mr. Hatch) to the bill (H. R. 5417) to provide revenue, and for other purposes, viz: At the end of page 32 insert the following new section:

SEC. 120. PARTNERSHIP INCOME.

(a) Section 181 of the Internal Revenue Code is amended to read as follows:

"SEC. 181. PARTNERSHIP NOT TAXABLE.

"Individuals carrying on business in partnership shall be liable for income tax only in their individual capacity, and the managing partner of the partnership shall be liable for the income tax on the net income of the partnership."

(b) Section 182 of the Internal Revenue Code is amended to read as follows:

"SEC. 182. TAX OF PARTNERS.

"(a) The net income of the partnership shall be considered as the income of the managing partner.

"(b) In computing the net income of the managing partner, he shall include—

"(1) As a part of his short-term capital gains and losses, the net short-term capital gain or loss of the partnership.

"(2) As a part of his long-term capital gains or losses the net long-term capital gain or loss of the partnership.

"(3) The ordinary net income or the ordinary net loss of the partnership, computed as provided in section 183 (b).

"(c) As used in this chapter, the term 'managing partner' means the member of the partnership who is designated as the managing partner by the partnership or, in the absence of such a designation, the member who is so designated by the Commissioner of Internal Revenue."

(c) Section 183 (c) of the Internal Revenue Code is amended by striking out the words "each partner" and inserting in lieu thereof "the managing partner"; and by striking out the words "of his distributive portion".

(d) Section 184 of the Internal Revenue Code is amended by striking out "the partner" and inserting in lieu thereof "the managing partner"; and by striking out the words "his proportionate share of".

(e) Section 188 of the Internal Revenue Code is amended by striking out the words "a partner" wherever they appear therein and inserting in lieu thereof "the managing partner".

(f) Section 189 of the Internal Revenue Code is amended by striking out the words "members of the partnership" and inserting in lieu thereof "managing partner".

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H. R. 5417

AMENDMENT

Intended to be proposed by Mr. OVERTON (for himself and Mr. HATCH) to the bill (H. R. 5417) to provide revenue, and for other purposes.

SEPTEMBER 4 (legislative day, SEPTEMBER 2), 1941
Ordered to lie on the table and to be printed

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H. R. 5417



IN THE SENATE OF THE UNITED STATES

SEPTEMBER 4 (legislative day, SEPTEMBER 2), 1941
Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. ADAMS to the bill (H. R. 5417) to provide revenue, and for other purposes, viz: At the proper place, insert the following:

SEC. . DEDUCTIONS FROM GROSS INCOME.

Section 23 (a) (1) of the Internal Revenue Code is amended by inserting after the words "taxable year" the words "in caring for and conducting the business of the taxpayer;"

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AMENDMENT

Intended to be proposed by Mr. ADAMS to the bill (H. R. 5417) to provide revenue, and for other purposes.

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Ordered to lie on the table and to be printed

Resolved, That the Sergeant at Arms of the House be authorized and directed to take such steps as may be necessary for carrying out the provision of these resolutions and that the necessary expenses in connection therewith be paid out of the contingent fund of the House.

Resolved, That the Clerk communicate these resolutions to the Senate and transmit a copy thereof to the family of the deceased.

The resolution was agreed to, and the Chair appointed the following Members to serve on the funeral committee: Messrs. SABATH, DOUGHTON, TREADWAY, LEA, WOODRUFF of Michigan, CANNON of Missouri, TABER, WOODRUM of Virginia, JOHNSON of Oklahoma, TARVER, WIGGLESWORTH, LAMBERTSON, LUDLOW, RICH, DITTER, DIRKSEN, JOHNSON of West Virginia, LEWIS, POWERS, SCRUGHAM, SNYDER, O'NEAL, LEAVY, CHENOWETH, and HILL of Colorado.

The SPEAKER pro tempore. The Clerk will report the remainder of the resolution.

The Clerk read as follows:

Resolved, That as a further mark of respect the House do now adjourn.

The resolution was agreed to.

Accordingly, at 12 o'clock and 40 minutes p. m., the House adjourned until Monday, September 8, 1941, at 12 o'clock noon.

EXECUTIVE COMMUNICATIONS, ETC.

Under clause 2 of rule XXIV, executive communications were taken from the Speaker's table and referred as follows:

882. A letter from the Secretary of War, transmitting a letter from the Chief of Engineers, United States Army, dated June 20, 1941, submitting a report, together with accompanying papers and illustrations, on a preliminary examination and survey of Canaveral Harbor, Fla., authorized by the River and Harbor Act approved August 26, 1937 (H. Doc. No. 367); to the Committee on Rivers and Harbors and ordered to be printed, with two illustrations.

883. A letter from the Acting Secretary of War, transmitting a draft of bill which will place under the jurisdiction of the Chief of Engineers of the Army all construction and maintenance work of the Army, including construction work now under the jurisdiction of the Quartermaster General; to the Committee on Military Affairs.

884. A letter from the Archivist of the United States, transmitting report of the Archivist of the United States on a list of papers relative to the Treasury Department; to the Committee on the Disposition of Executive Papers.

885. A letter from the past adjutant general of the Grand Army of the Republic, transmitting the annual report of proceedings of the Seventy-fourth National Encampment of the Grand Army of the Republic held at Springfield, Ill., September 8–13, 1940 (H. Doc. No. 35) to the Committee on Military Affairs and ordered to be printed, with illustrations.

886. A communication from the President of the United States, transmitting a proposed provision making available $1,500,000 to the Secretary of Agriculture from funds appropriated by the Interior Department Appropriation Act, 1942, under the heading "Water conservation and utility projects" (H. Doc. No. 368); to the Committee on Appropriations and ordered to be printed.

887. A letter from the Chairman of the Reconstruction Finance Corporation, transmitting a report of activities and expenditures of the Reconstruction Finance Corporation for the month of June 1941 (H. Doc. No. 369); to the Committee on Banking and Currency and ordered to be printed.

888. A letter from the Acting Secretary of Agriculture, transmitting a draft of a proposed bill for the relief of Joseph Simon and R. D. Lewis; to the Committee on Claims.

889. A letter from the Acting Secretary of the Interior, transmitting copies of legislation passed by the Municipal Council of St. Croix; to the Committee on Insular Affairs.

890. A letter from the Acting Secretary of the Interior, transmitting copies of legislation passed by the Municipal Council of St. Thomas and St. John; to the Committee on Insular Affairs.

891. A letter from the Engineer Commissioner of the District of Columbia, transmitting the Twenty-eighth Annual Report of the Public Utilities Commission of the District of Columbia; to the Committee on the District of Columbia.

PUBLIC BILLS AND RESOLUTIONS

Under clause 3 of rule XXII, public bills and resolutions were introduced and severally referred as follows:

By Mr. KING:

H. R. 5626. A bill providing for the issuance of a Sailor's Medal; to the Committee on Naval Affairs

By Mr. BURDICK:

H. J. Res. 232. Joint resolution authorizing the erection of a statue of Leif Erickson in the District of Columbia; to the Committee on the Library.

By Mr. PADDOCK:

H. Res. 302. Resolution requesting certain information of the Secretary of the Navy relating to the desirability of an additional naval academy; to the Committee on Naval Affairs

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PRIVATE BILLS AND RESOLUTIONS

Under clause 1 of rule XXII, private bills and resolutions were introduced and severally referred as follows:

By Mr. FLANNERY:

H. R. 5627. A bill for the relief of Mrs. Ray Roth; to the Committee on Immigration and Naturalization.

By Mr. SPARKMAN:

H. R. 5628. A bill for the relief of Louis and Estelle Thomas; to the Committee on Claims.

By Mr. VREELAND:

H. R. 5629 (by request). A bill for the relief of Peter J. Sweeney; to the Committee on Claims.

PETITIONS, ETC.

Under clause 1 of rule XXII, petitions and papers were laid on the Clerk's desk and referred as follows:

1801. By Mr. KING: Petition of sundry residents of the island of Oahu, T. H., protesting against the enactment of House bill 3852 and Senate bill 983, to authorize the District of Columbia Board of Barber Examiners to establish opening and closing hours, and a day on which barber shops shall remain closed after an investigation as to the preference of a majority of the licensed barbers; to the Committee on the District of Columbia.

1802. Also, petition of sundry residents of the island of Oahu, T. H., protesting against the enactment of House bill 3852 and Senate bill 983, to authorize the District of Columbia Board of Barber Examiners to establish opening and closing hours, and a day on which barber shops shall remain closed after an investigation as to the preference of a majority of the licensed barbers; to the Committee on the District of Columbia.

1803. By the SPEAKER: Petition of the National Association of Railroad and Utilities Commissioners, Washington, D. C., petitioning consideration of their resolution with reference to reductions in telephone rates on telephone messages originating in training centers; to the Committee on Military Affairs.

1804. Also, petition of the International Longshoremen's and Warehousemen's Union, San Pedro, Calif., petitioning consideration of their resolution with reference to price-fixing legislation; to the Committee on Banking and Currency.

1805. Also, petition of the Lakewood General Welfare Center, Lakewood, N. J., petitioning consideration of their resolution with reference to the Federal Social Security Act; to the Committee on Ways and Means.

1806. Also, petition of the Iowa-Nebraska States Industrial Union Council, Des Moines, Iowa, petitioning consideration of their resolution with reference to an appointment to the National Labor Relations Board; to the Committee on Labor.

SENATE

FRIDAY, SEPTEMBER 5, 1941

(Legislative day of Tuesday, September 2, 1941)

The Senate met at 11 o'clock a. m., on the expiration of the recess.

The Reverend Hunter M. Lewis, B. D., assistant rector, Church of the Epiphany, Washington, D. C., offered the following prayer:

Almighty God and Heavenly Father, who hast created man for companionship with Thee, calling us Thy children, that we might walk without fear with Thee: Help us, we beseech Thee, to know Thee as the true home of our spirits, and, through daily fellowship with Thee, to come so to trust and love Thee as our Father that our lives may grow in power and fruitfulness, and every duty to which Thou dost lead us may seem sublime.

By the might of Thy Spirit, O Lord, lift up our souls to Thy presence, and, though we be tied and bound by the limitations of our mortal flesh, inspire us with such devotion to Thy service, we beseech Thee, that we may fulfill our heavenly calling in the doing of earthly things in a heavenly manner. We ask it in the Name of Him who didst glorify the commonplace until it glowed with His radiance, Thy Son, Jesus Christ our Lord. Amen.

THE JOURNAL

On request of Mr. BARKLEY, and by unanimous consent, the reading of the Journal of the proceedings of the calendar day of Thursday, September 4, 1941, was dispensed with, and the Journal was approved.

CALL OF THE ROLL

Mr. HILL. I suggest the absence of a quorum.

The VICE PRESIDENT. The clerk will call the roll.

The Chief Clerk called the roll, and the following Senators answered to their names:

Adams	Bilbo	Butler
Aiken	Brewster	Byrd
Andrews	Bridges	Capper
Austin	Brooks	Caraway
Bailey	Brown	Clark, Idaho
Bankhead	Bulow	Clark, Mo.
Barbour	Bunker	Connally
Barkley	Burton	Danaher

Davis	La Follette	Russell
Downey	Langer	Schwartz
Eastland	Lee	Smathers
Ellender	Lodge	Smith
George	Lucas	Spencer
Gerry	McCarran	Taft
Gillette	McFarland	Thomas, Idaho
Green	McNary	Thomas, Utah
Guffey	Maloney	Tobey
Hatch	Murray	Truman
Hayden	Nye	Tunnell
Herring	O'Daniel	Tydings
Hill	O'Mahoney	Vandenberg
Holman	Overton	Van Nuys
Hughes	Peace	Wallgren
Johnson, Colo.	Radcliffe	Walsh
Kilgore	Rosier	Wiley

Mr. HILL. I announce that the Senator from Washington [Mr. BONE], the Senator from Virginia [Mr. GLASS], the Senator from North Carolina [Mr. REYNOLDS], and the Senator from New York [Mr. WAGNER] are absent from the Senate because of illness.

The Senator from Kentucky [Mr. CHANDLER] is absent on a defense-inspection tour.

The Senator from New Mexico [Mr. CHAVEZ], the Senators from Tennessee [Mr. MCKELLAR and Mr. STEWART], the Senator from Utah [Mr. MURDOCK], the Senator from Florida [Mr. PEPPER], the Senator from Oklahoma [Mr. THOMAS], and the Senator from Montana [Mr. WHEELER] are necessarily absent.

The Senator from New York [Mr. MEAD] is engaged in holding hearings on behalf of the Committee to Investigate the National Defense Program.

Mr. AUSTIN. The Senator from Minnesota [Mr. BALL], the Senator from South Dakota [Mr. GURNEY], the Senator from Kansas [Mr. REED], and the Senator from Minnesota [Mr. SHIPSTEAD] are necessarily absent.

The Senator from Indiana [Mr. WILLIS] is absent because of an injury.

The VICE PRESIDENT. Seventy-five Senators have answered to their names. A quorum is present.

PETITIONS

Petitions were presented and referred as indicated:

By Mr. CAPPER:

Petitions, numerously signed, of sundry citizens of Eureka, Randall, and Topeka, all in the State of Kansas, praying for the enactment of the bill (S. 860) to provide for the common defense in relation to the sale of alcoholic liquors to the members of the land and naval forces of the United States and to provide for the suppression of vice in the vicinity of military camps and naval establishments; to the table.

REPORT OF A COMMITTEE

The following report of the Committee on Agriculture and Forestry was submitted:

By Mr. BULOW:

S. Res. 159. Resolution authorizing an investigation concerning the improvement and development of navigation, irrigation, and control of floods on the Missouri River and its tributaries (submitted by Mr. BULOW on the fourth instant), without amendment, and, under the rule, referred to the Committee to Audit and Control the Contingent Expenses of the Senate.

BILLS INTRODUCED

Bills were introduced, read the first time, and, by unanimous consent, the second time, and referred as follows:

By Mr. HATCH:

S. 1896. A bill to require the filing of annual statements by persons making income-tax returns, and by certain other organizations, showing the amounts of political contributions and expenditures made by them; to the Committee on Privileges and Elections.

By Mr. MCCARRAN:

S. 1897. A bill providing for the abolition of the office of coroner and for the organization of the office of medical examiner for the District of Columbia; to the Committee on the District of Columbia.

INVESTIGATION RELATIVE TO WAR PROPAGANDA BY MOTION-PICTURE AND RADIO INDUSTRIES—AMENDMENT

Mr. NYE (for himself and Mr. CLARK of Missouri) submitted an amendment intended to be proposed by them to the resolution (S. Res. 152) authorizing an investigation of propaganda disseminated by the motion-picture and radio industries tending to influence participation of the United States in the present European war, which was referred to the Committee on Interstate Commerce and ordered to be printed.

STRATEGIC AND CRITICAL MATERIALS

Mr. THOMAS of Utah submitted the following resolution (S. Res. 161), which was referred to the Committee on Military Affairs:

Whereas it is the policy of the National Government to increase the stocks of strategic and critical materials with a view to preventing the dependence of the United States upon foreign nations for supplies of such materials in times of national emergency: Therefore be it

Resolved, That it is the sense of the Senate that the Secretary of State, the Secretary of the Treasury, and the Secretary of Commerce should make every effort to utilize to the fullest practicable extent any powers that they now possess for the purpose of acquiring, by purchase, exchange, or otherwise, stocks of materials determined to be strategic and critical materials in accordance with the act of June 7, 1939, and that the Secretary of the Treasury should determine the extent to which any such materials may be acquired in payment of the existing indebtedness of foreign governments to the Government of the United States, and the extent to which legislation may be required for the purpose of facilitating any such acquisition and the reduction of such indebtedness by means of such acquisitions.

ADDRESS BY SENATOR CAPPER ON FINANCING OUR DEFENSE PROGRAM

[Mr. DAVIS asked and obtained leave to have printed in the RECORD a radio address on the subject of Financing Our Defense Program, delivered by Senator CAPPER on August 16, 1941, which appears in the Appendix.]

ADDRESS BY SENATOR HERRING ON THE CRADLE OF LIBERTY AND ARSENAL OF DEMOCRACY

[Mr. GUFFEY asked and obtained leave to have printed in the RECORD an address delivered by Senator HERRING before the League of Iowa Municipalities at Waterloo, Iowa, on August 20, 1941, which appears in the Appendix.]

UNITED STATES ENTRY INTO THE WAR—ADDRESS BY L. B. ALEXANDER

[Mr. BARKLEY asked and obtained leave to have printed in the RECORD an address by L. B. Alexander, president of the Kentucky State Bar Association, delivered in Los Angeles, printed in the Los Angeles Daily Journal of August 18, 1941, which appears in the Appendix.]

TRIBUTE TO THE LATE REPRESENTATIVE EDWARD T. TAYLOR

[Mr. JOHNSON of Colorado asked and obtained leave to have printed in the RECORD a tribute to the late Representative EDWARD T. TAYLOR, of Colorado written by Horace C. Carlisle, which appears in the Appendix.]

REVENUE ACT OF 1941

The Senate resumed the consideration of the bill (H. R. 5417) to provide revenue, and for other purposes.

The VICE PRESIDENT. The question is on agreeing to the motion of the Senator from Kentucky [Mr. BARKLEY] to lay on the table the motion of the Senator from Illinois [Mr. LUCAS] to reconsider the vote whereby the Senate agreed to the committee amendment, as amended, on page 105, lines 1 to 10, inclusive, relating to the tax on coin-operated amusement and gaming devices. The motion is not debatable.

The motion to lay on the table was agreed to.

Mr. DOWNEY obtained the floor.

Mr. TAFT. Mr. President, will the Senator from California yield to me to offer an amendment?

Mr. DOWNEY. I yield.

Mr. TAFT. Mr. President, I ask unanimous consent to offer an amendment about which I think there will be no controversy. I have discussed it with the chairman of the Committee on Finance, and shall explain it very briefly. I ask unanimous consent to have it acted on now because of the fact that I have to leave the city within a short time. Otherwise, I will not have opportunity to present the amendment.

The VICE PRESIDENT. Is there objection? The Chair hears none, and the Senator may offer the amendment.

Mr. TAFT. The amendment which I send to the desk is designed to correct a mistake in the inheritance-tax law. The inheritance-tax law as it is now framed provides that no estate shall be taxed twice within 5 years. For instance, if a man dies and leaves his estate to his wife, and then she dies within 5 years, there are not two taxes imposed, only one is imposed. But due to a mistake in the last revenue act, that provision did not apply to an estate under $100,000.

This matter could be left to be handled in the administrative bill, but, of course, people affected by the provision are dying all the time, so that naturally it is not advisable to wait longer. Any other amendment will apply to the year 1941, but, of course, a mistake of this kind should be corrected just as soon as possible.

The amendment was drafted by the Treasury Department, and that Department is agreeable to it, and says that by all means the amendment should be made. I have conferred with the chairman of the Committee on Finance, and I think the amendment is in proper form, having been actually prepared by

the Treasury Department, to be taken to conference. I offer the amendment.

The VICE PRESIDENT. The clerk will state the amendment for the information of the Senate.

The LEGISLATIVE CLERK. On page 54, after line 8, it is proposed to insert the following new section:

SEC. 402. Deduction on account of property previously taxed.

(a) Amendments to Internal Revenue Code. The Internal Revenue Code is amended as follows:

(1) Second sentence of section 812 (c), Internal Revenue Code, following "estate tax imposed under this," strike out "subchapter, the Revenue Act of 1926 (44 Stat. 69)" and insert in lieu thereof "chapter."

(2) Second sentence of section 861 (a) (2), Internal Revenue Code, following "estate tax imposed under this," strike out "subchapter, the Revenue Act of 1926 (44 Stat. 69)" and insert in lieu thereof "chapter."

(b) Amendments to Revenue Act of 1926. The Revenue Act of 1926 is amended as follows:

(1) Second sentence of section 303 (a) (2) Revenue Act of 1926, as amended, following "estate tax imposed under," strike out "this" and insert in lieu thereof "the Revenue Act of 1932."

(2) Second sentence of section 303 (b (2), Revenue Act of 1926, as amended, following "estate tax imposed under," strike out "this" and insert in lieu thereof "the Revenue Act of 1932."

(c) Effective dates.

(1) The sections of the Internal Revenue Code amended by subsection (a) shall have effect as if such sections, as so amended, had been enacted in the Internal Revenue Code on February 10, 1939.

(2) The amendments made by subsection (b) shall be effective with respect to the estates of decedents dying after the enactment of the Revenue Act of 1932.

On page 54, line 9, it is proposed to strike out "402" and insert "403."

The VICE PRESIDENT. Is there objection to the present consideration of the amendment?

Mr. GEORGE. There is no objection to the present consideration of the amendment, no other amendment now being pending. The Senator from Ohio has accurately and correctly stated the facts, and there is no objection to the amendment.

The VICE PRESIDENT. The question is on agreeing to the amendment offered by the Senator from Ohio.

The amendment was agreed to.

Mr. DOWNEY. Mr. President, I dislike to intrude upon the Senate in its consideration of this important revenue bill by a discussion of any proposal, however important, which may to some Senators seem extraneous to the issue now being considered by the Senate. Nevertheless, it is my imperative obligation to do that.

Mr. President, I suppose all of us in the United States are very, very unhappy at one phase of this crisis that engulfs the world, and that is the lack of national unity in our foreign relations. It is an unfortunate fact that our people are falling into at least two or three rather determined and bitter factions in considering what should be the program of the United States regarding its foreign policy. I can only utter my humble prayer that changing circumstances may soon bring all of us in this critical period back of some common foreign policy. I can do no more than utter that prayer, but I do have the happy opportunity to present to the Senate of the United States a domestic issue upon which almost every American citizen is in agreement, and that is that it is the imperative duty of the Federal Government to provide for its retired and aged citizens a more decent and humane pension than is now being paid them.

I have felt, Mr. President, that for many years the common folk of America who produce our wealth, who constitute the vast majority of our citizenry, have been critical of the lagging efforts of our governmental representatives to bring about a more adequate pension system. I have addressed church groups, labor groups, farm groups, and various other groups, and found there an almost unanimous sympathy for the tragic and sorry plight of the man who has reached his later days without savings, no longer needed by industry and by society. I have believed that there was an overwhelming support back of the so-called pension groups; and I am happy, along with other pension advocates, now to have in my possession the results of the Gallup poll taken within the past month, showing a unanimity of opinion upon this profoundly important subject, which should stimulate the Congress and the President of the United States to prompt and vigorous action upon it.

Mr. President, I ask you to consider that the Gallup poll shows that the American people stand 91 percent for a Federal pension system; shows that they stand almost unanimously for a pension payment more than double the average now being paid in the United States; shows that they stand almost unanimously for dropping the age limit from 65 to 60 years.

Mr. President, as we look over the field of American life, when we have the opportunity to leave this unhappy Capital City of Washington, when we go out into the highways and byways of America, among our people, and see a desperate, tragic multitude on one side of the fence, ill-fed, ill-housed, and ill-clothed, and, on the other side of the fence, great factories working at part capacity, and great decaying farm surpluses, there is no wonder that from the hinterlands of this country comes the demand that even in this war crisis we must for a while concentrate upon the salvation of our own people. In the course of our investigation, the Special Committee To Investigate Old Age Pensions, of which I have the honor to be chairman, discovered many, many important facts. Some of our more conservative editors and other conservatives do not believe that at this time we have the material wealth which enables us to give anything more to the tragic souls who are now trying to live on $5, $10, $15, and $20 a month. But the records of the Department of Agriculture indicate that in this emergency year most of our farm products will show increased surpluses. By that I mean that, in spite of the war emergency for many—yes; for most of our farm products there will be more surpluses on hand January 1 of next year than there were on hand January 1 of this year.

There is no lack of milk, meat, vegetables, and grain and all the other staples of life to take care of our unfortunate people. There is no necessity for a wealthy nation which desires the leadership of the world to allow tens of millions of its own people to exist below a subsistence level.

Mr. President, this year in California we will produce 100,000 tons of prunes more than we can dispose of. They will be stored or wasted, or given away abroad, or destroyed, or distributed through governmental subsidy, while all over this country tens of millions of our people lack sufficient food to nourish their bodies. I have cited this surplus crop of prunes. Similar examples might be given for many, many crops almost everywhere in our farm States. Our citizens know that any argument that we cannot bring greater subsistence to our unfortunate classes is absurd. They know we have an abundance of farm and factory commodities for all of us.

In the basic figures used in our committee's investigation we took the estimate of the census that on January 1, 1945, there would be in our country 15,000,000 people above 60 years of age, of whom we believe 10,000,000 or two-thirds, would take the pension which is recommended in the report of the committee. Actuarial experts and representatives of the Social Security Board came before us tremendously alarmed because in 1980, when we will have a population of 160,000,000, approximately 30,000,000 of our people will be past 60 years of age. "Oh, yes," says the Social Security Board, "it is easy enough to provide now for the 10,000,000 who need help, but what are you going to do in 1980 to take care of the 30,000,000 people past 60 years of age we will then have?"

Let me say that if it were not for the governmental controls and subsidies during this very year, we would be producing more farm products than 160,000,000 people, and 30,000,000 people past 60 years of age, could possibly use. If the Congress of the United States within the next 40 years cannot work out some way to distribute the products of the farmers to a hungry population, heaven help the American Nation.

An investigation into the facts shows that there are now on the farms of the United States 12,000,000 or 13,000,000 workers. We could produce an abundant diet for all of our people with 10,000,000 farm workers. As a matter of fact, about 9,000,000 workers could supply all the farm crops we are now producing. The point I am trying to make is that right now we are wasting enough of our resources to more than provide a bountiful living for all the population we will have 40 years from now.

Yes; social-security experts should be perturbed. They should not be concerned, however, about the ability of our workers and farmers and technicians to produce a sufficiency for all. They should be concerned that our Government does not undertake the task of distributing to our people that which we

so bountifully produce and which so many people sadly lack.

Mr. President, we now have in the group between 60 and 65 years of age many millions of people so insecure and destitute that they are a reproach to the Congress of the United States and to a government which aspires to world leadership. Consider, for example, the State in which the old-age pension system is most inadequate. In that State——

Mr. HATCH. Mr. President, will the Senator yield to me?

Mr. DOWNEY. I yield.

Mr. HATCH. I am quite interested in what the Senator from California is saying. I know that no person in the United States has given more study and thought to the question of security for aged people than he has, but I am wondering about his particular amendment. I understand he proposes to offer an amendment to the pending bill. Is that correct?

Mr. DOWNEY. Yes; that is correct.

Mr. HATCH. My thought simply is this: Regardless of what the Senator and his own committee believe, and the study they have made, would it not be better for the Finance Committee to take up the amendment in the form of an independent bill and study it? What does the Senator think about that suggestion?

Mr. DOWNEY. Let me say to the Senator from New Mexico that for 3 years I have been hoping, importuning, and praying that the Finance Committee of the United States Senate would hold one single meeting on pensions, but so far I have been disappointed.

Mr. HATCH. I am not a member of the Finance Committee. I know the question involved is very important in the minds of many of our people, but I personally would not care to vote on the amendment at this time without the committee which is charged with the responsibility for framing legislation along these lines having considered it.

Mr. BANKHEAD rose.

Mr. DOWNEY. Mr. President, I will presently yield to the Senator from Alabama, but first I wish to complete my reply to the Senator from New Mexico. I hope the Senator from New Mexico will not now make his decision final, and before he does I should like to give him the history of the consideration of pension proposals in the Senate of the United States.

Mr. President, for 2 solid years I had a pension proposal pending before the Finance Committee, and there were several other pension proposals pending.

Mr. HATCH. Mr. President, will the Senator yield again for a moment?

Mr. DOWNEY. Yes.

Mr. HATCH. I observe that the chairman of the Finance Committee [Mr. GEORGE] is present, as well as the majority leader, the Senator from Kentucky [Mr. BARKLEY], and I think they can assure the Senator from California that he might have a hearing, if he would ask them.

Mr. GEORGE. Mr. President, will the Senator yield to me?

Mr. DOWNEY. I yield to the Senator from Georgia.

Mr. GEORGE. I am sure that such a hearing can be ordered by the Finance Committee, and give the Senator from California, who has been most diligent in this matter, full opportunity to develop the facts, and also to develop legislation. There is a little difficulty about it, because any real pension program, such as the Senator contemplates, necessarily involves revenue, will necessarily affect the revenue, and so it is somewhat difficult to originate in this body a comprehensive and satisfactory pension program or bill, unless it is tacked on to some revenue measure which comes from the other House. But I can assure the Senator that I will be very glad indeed to arrange for public hearings if he desires public hearings. At least I am sure the committee will be glad to give him hearings, and will permit the development of all the facts and the shaping up of such legislation as may be found desirable. The opportunity will from time to time present itself to attach the proposal to some bill which deals with the revenue, which, of course, must originate in the House.

Mr. President, we are laboring under the disability of not being able to consider originally a comprehensive system such as the Senator proposes, because it would inevitably involve revenue, and the House, even if we should pass such a bill, would probably not give it consideration, because it would insist upon the constitutional right of the House, and, of course, it becomes its constitutional duty to do that. But I am sure the Finance Committee will grant the Senator full hearings, full opportunity to be heard, full opportunity to frame legislation within our power to enact, or for the purpose of having it attached to some suitable bill whenever it comes from the other House, though it might be a purely minor revenue measure of some kind or character.

Mr. President, I myself feel, as I have expressed myself heretofore, that the Senator's proposal should receive separate treatment and separate consideration. It is entitled to it, and if it should come to us in an orderly way from the House as a separate measure, we would have better opportunity to give it the consideration we should be able to give to it. But I stand ready, so far as my influence with the committee goes, to assure the Senator from California that immediately, or as soon as readily may be, we will undertake to provide hearings, and give full opportunity to the Senator to present his proposal.

Mr. DOWNEY. Mr. President, may I ask the distinguished Senator from Georgia if he anticipates that it will be possible to have such hearings sometime between now and the 1st of January, and to complete them before that time?

Mr. GEORGE. Oh, yes, indeed. I do not know how long it would take to complete the hearings, but it would be possible to do so before that time.

Mr. DOWNEY. It would not take us over a week to present what data we would desire to develop, and then I suppose the Treasury Department and the Social Security Board, as well as other experts and other groups, would be heard. But, so far as we are concerned, it would take a very short time for us to present our data to the Finance Committee.

Mr. GEORGE. I can assure the Senator that opportunity can be given between this time and November, or between this time and December, to be on the safe side.

Mr. BARKLEY rose.

Mr. DOWNEY. Mr. President, I will now yield to the Senator from Alabama, who rose previously.

Mr. BANKHEAD. Mr. President, at this point in the discussion I wish to say that I have an amendment which I intend to offer at the appropriate time, which I have submitted to the Senator from California and the Senator from Georgia. Because of its appropriateness to this discussion I ask unanimous consent that the clerk read my proposed amendment at this time, and then I should like to make a very brief statement concerning it.

The VICE PRESIDENT. Without objection, the clerk will read the amendment as requested.

The legislative clerk read as follows:

The Ways and Means Committee of the House is requested to reexamine the financial structure of the social-security laws and report by bill or otherwise, if found desirable by said committee, as follows:

1. Whether the old-age insurance and the old-age-assistance plans should be consolidated and unified, and, if so, how and under what terms and conditions the two plans should be combined.

2. Whether a Federal old-age pension should be provided for each citizen of the United States and, if so, in what amount and at what age.

3. A plan to finance such a pension.

4. That said committee is requested to make its report by bill or otherwise to the House of Representatives as early as it reasonably can do so.

Mr. BANKHEAD. Mr. President, in the first place, I wish to commend the Senator from California for the tremendous amount of work which he has devoted to this subject as chairman of a special committee created by the Senate to investigate the matter. I am not a member of that committee, but I have had the opportunity to read the report. It is a most interesting report.

We are in this situation: A large number of Members of the Senate would like to have an opportunity to vote in the regular way, which would be acceptable to the other branch of Congress, on an old-age pension bill. I introduced one such bill in January. We know the attitude of the House on the subject of riders, especially on questions of tremendous importance such as this subject. I should be glad to have the hearings proceed in the manner suggested by the Senator. Such a course would help to develop the record. I am extremely anxious to have the proposed legislation in such shape that it will be in line with the usual practice and procedure of the two Houses.

We know that because of the taxation feature of this program the bill cannot originate in the Senate. We know that it must originate in the House; and it is quite certain that a matter of this importance, involving possibly billions of

TABLE II.—*Illustrative figures on benefits (paid and "vested") and contributions (employee and employer combined) in respect to those individuals for whom claims have materialized during the periods indicated, based on assumptions developing higher costs than table I, with 3-percent interest*

[Contribution and benefit figures in billions of dollars]

Period in which claim is made	Stop dates of observation		
	Contributions	Benefits	Ratio
	Dec. 31, 1954		
			Percent
Jan. 1, 1940–Dec. 31, 1954	3	20	16
Jan. 1, 1955–Dec. 31, 1966			
Jan. 1, 1967–Dec. 31, 1979			
Total	3	20	16
	Dec. 31, 1966		
			Percent
Jan. 1, 1940–Dec. 31, 1954	5	29	16
Jan. 1, 1955–Dec. 31, 1966	17	35	49
Jan. 1, 1967–Dec. 31, 1979			
Total	23	64	35
	Dec. 31, 1979		
			Percent
Jan. 1, 1940–Dec. 31, 1954	7	42	16
Jan. 1, 1955–Dec. 31, 1966	25	51	49
Jan. 1, 1967–Dec. 31, 1979	50	70	[1] 71
Total	82	163	50

[1] This ratio is for the full 13-year period; for later individual years the ratio of course exceeds 71 percent; under the assumptions used in this illustration, 100 percent is reached in the year 1992.

TABLE III.—*Balance sheet of accumulated (3-percent interest) income and outgo (including expenses and "vested" benefits) as of Jan. 1, 1941*

[To bring the answers to this question into focus with whole program]

	Lower cost illustration	Higher cost illustration
1. Benefits paid and "vested" by Jan. 1, 1980	$84,000,000,000	$118,000,000,000
2. Interest thereon at 3 percent to Jan. 1, 1980	36,000,000,000	45,000,000,000
3. Total benefits with interest on Jan. 1, 1980	120,000,000,000	163,000,000,000
4. Taxes paid by claimants only	15,000,000,000	20,000,000,000
5. Taxes paid by their employers	15,000,000,000	20,000,000,000
6. Interest on (4) and (5) at 3 percent to Jan. 1, 1980	32,000,000,000	42,000,000,000
7. Total income due to claimants' contributions	62,000,000,000	82,000,000,000
8. Benefits with interest (3), exceed claimants' contributions and interest (7) by	58,000,000,000	81,000,000,000
9. Taxes paid by employees not yet claimants by 1980	26,000,000,000	21,000,000,000
10. Taxes paid by the employers of (9)	26,000,000,000	21,000,000,000
11. Interest on (9) and (10) after deducting all administrative expenses	39,000,000,000	36,000,000,000

TABLE III—Continued

[To bring the answers to this question into focus with whole program]

	Lower cost illustration	Higher cost illustration
12. Total income by 1980 a/c still active contributors	$91,000,000,000	$78,000,000,000
13. Amount in old-age and survivors insurance trust fund Jan. 1, 1980, (12) minus (8) equals	33,000,000,000	−3,000,000,000

EXHIBIT 12

Old-age insurance: Illustration showing the relation between contributions paid in and benefits received

Assume the case of two men who entered the system on January 1, 1937, and who remain therein until December 31, 1954. Assume that one of these men had had, over this period, an average monthly wage of $250, and that the other had had an average monthly wage of $25. Assume that each man died December 31, 1954, and that each left a widow under 48 years of age at the time of his death. Assume that each of these men also left three children, aged 1, 3, and 5 years; that all of the children survive to maturity, and that each widow lives to 75 years of age. Please calculate the amount of money which would have been paid in by each of these men and the amount which would have been paid out to each man's widow and children.

	Contributor earning $250 per month	Contributor earning $25 per month
Amount received by widow	$20,906	$5,154.00
Amount contributed	1,125	112.50
Excess of benefits over contributions	19,781	5,041.50
Proportion of contributions to benefits received (percent)	5.38	2.18

(Adapted by chairman from material supplied by the Bureau of Research and Statistics of the Social Security Board.)

EXHIBIT 13

Old-age insurance: Illustration showing the relation between contributions paid in and benefits received

Assume 2 single men who entered the system on January 1, 1937, and who remain therein until December 31, 1954, when they reach the age of 65 years. Assume that one of these men had had, over this period, an average monthly wage of $250 and that the other had had an average monthly wage of $25. Please calculate the amount of money which would have been paid in by each of these men and the amount which would be paid out to each in benefits if they lived out their normal life expectancy after 65.

	Contributor earning $250 per month	Contributor earning $25 per month
Amount received by single men	$6,950.20	$1,737.80
Amount contributed	1,125.00	112.50
Excess of benefits over contributions	5,825.20	1,625.30
Proportion of contributions to benefits received (percent)	16.19	6.47

(Adapted by chairman from material supplied by the Bureau of Research and Statistics of the Social Security Board.)

EXHIBIT 14

Old-age insurance: Illustration showing relation between contributions paid in and benefits received

Assume the cases of two married men who entered the system on January 1, 1937, and who remain therein until December 31, 1954. Assume that one of these men had had, over this period, an average monthly wage of $250 and that the other had had an average monthly wage of $25. Assume that each man retires on December 31, 1954, at the age of 65 years and that their wives were at that time likewise 65 years of age. Assume further that the two men live out their normal life expectancies after 65 (11.77 years), and that their wives live out their normal life expectancies after 65 (12.81 years). Please calculate the amount of money which would have been paid in by each of these men and the amount which would be paid out to each man and to his wife before and after his death.

	Contributor earning $250 per month	Contributor earning $25 per month
Amount received by man and wife	$10,725.20	$2,695.80
Amount contributed	1,125.00	112.50
Excess benefits over contributions	9,600.20	2,583.20
Proportion of contributions to benefits received (percent)	10.49	4.17

(Adapted by chairman from material supplied by the Bureau of Research and Statistics of the Social Security Board.)

EXHIBIT 15

Old-age insurance illustration showing relation between contributions paid in and benefits received

Assume the case of two men who entered the system on January 1, 1937, and who remain therein until their death on December 31, 1945, when each was 43 years of age. Assume that one of these men had had, over this period, an average monthly wage of $250 and that the other had had an average monthly wage of $25. Assume that each left no children but left a widow 40 years of age at the time of his death. Assume that each widow survived until the age of 65 years and thereafter lived out her normal life expectancy (12.81 years). Please calculate the amount of money which would have been paid in by each of these men and the amount which would be paid out to each man's widow.

	Contributor earning $250 per month	Contributor earning $25 per month
Amount received by widow	$5,268.00	$1,603.00
Amount contributed	360.00	36.00
Excess benefits over contributions	4,928.00	1,567.00
Proportion of contributions to benefits received (percent)	6.81	2.24

(Adapted by chairman from material supplied by the Bureau of Research and Statistics of the Social Security Board.)

EXHIBIT 16

Old-age insurance illustration showing monthly benefits paid to a single and to a married man and his wife, on the basis of $250 and $25 average monthly wage

Assume a single man and a married man who have been in the system for 18 years earning average monthly wages of $250. Assume that each man retired on December 31, 1954, at the age of 65 years and that the married man's wife was then likewise 65 years of age. Assume further that the two men live out their normal life expectancies after 65

(11.77 years), and that the wife of the married man lives out her normal life expectancy after 65 (12.81 years).

Please calculate the primary monthly benefit which will be paid to the single man: The monthly benefit which will be paid to the married man and to his wife while he is alive, and the monthly benefit which will be paid to the widow of the married man after his death. Please calculate the monthly benefits which will be paid, as above, if we assume a $25 average monthly wage basis instead of $250.

	Monthly benefits		
	Paid to single man	Paid to married man and wife	Paid to widow
Paid on basis of $250 monthly wage	$47.20	$70.80	$35.40
Paid on basis of $25 monthly wage	11.80	17.70	10.00

NOTE.—Adapted by chairman from material supplied by the Bureau of Research and Statistics of the Social Security Board.

EXHIBIT 17. *Distribution of workers earning under $200 per annum under the old-age and survivors insurance program, by States, 1939*

State	Percentage of total workers earning under $200 per annum
Mississippi	47
Arkansas	44
Florida	42
North Dakota	40
Idaho	38
New Mexico	38
Texas	37
South Dakota	37
Georgia	36
Louisiana	36
Kansas	35
Utah	35
Nebraska	35
Oklahoma	35
South Carolina	34
Alabama	33
Vermont	32
Kentucky	31
Iowa	31
Tennessee	31
Arizona	31
Colorado	31
Maine	30
Virginia	30
North Carolina	30
Montana	30
Wyoming	29
Minnesota	27
Oregon	27
Delaware	26
Nevada	26
Washington	26
Missouri	25
California	25
Maryland	24
New Hampshire	23
Indiana	23
Wisconsin	22
District of Columbia	22
West Virginia	22
Michigan	20
Ohio	19
Illinois	19
New Jersey	18
Pennsylvania	18
Massachusetts	17
New York	17
Rhode Island	17
Connecticut	15

NOTE.—There are no data available to show the percentage of contributors by States whose quarterly wage is less than $50.

EXHIBIT 18. *Old-age and survivors insurance—Comparison of average monthly per capita employee contributions paid in over the period 1937–40, with per capita benefits paid out in December 1940, by States, ranked by size of average contribution*

State	Average monthly per capita employee contributions (1)	Rank (2)	Per capita benefits paid out (3)	Rank (4)	Difference in rank (2)−(4)
United States	$0.371		$0.042		
Connecticut	.614	1	.066	4	−3
New York	.592	2	.060	6	−4
New Jersey	.546	3	.065	5	−2
Alaska	.540	4	.013	49	−45
Illinois	.540	5	.053	10	−5
Rhode Island	.526	6	.071	2	+4
Michigan	.524	7	.043	17	−10
Massachusetts	.517	8	.069	3	+5
District of Columbia	.503	9	.037	22	−13
Delaware	.486	10	.051	13	−3
Ohio	.483	11	.056	9	+2
California	.469	12	.050	14	−2
Pennsylvania	.469	13	.058	8	+5
Nevada	.445	14	.038	21	−7
Washington	.394	15	.053	11	+4
Maryland	.393	16	.042	20	−4
New Hampshire	.375	17	.079	1	+16
Indiana	.375	18	.043	16	+2
Oregon	.362	19	.047	15	+4
Wisconsin	.353	20	.043	18	+2
West Virginia	.319	21	.042	19	+2
Missouri	.317	22	.037	24	−2
Vermont	.311	23	.060	7	+16
Maine	.309	24	.053	12	+12
Wyoming	.282	25	.031	28	−3
Colorado	.278	26	.037	23	+3
Minnesota	.272	27	.032	27	0
Montana	.272	28	.031	29	−1
Arizona	.258	29	.025	34	−5
Utah	.257	30	.035	25	+5
Hawaii	.251	31	.029	30	+1
Texas	.225	32	.020	43	−11
Virginia	.223	33	.0	33	26
Florida	.220	34	.032	26	+8
Idaho	.207	35	.023	36	−1
Iowa	.205	36	.027	32	+4
Louisiana	.200	37	.022	39	−2
North Carolina	.187	38	.021	41	−3
Kansas	.186	39	.025	35	+4
Oklahoma	.185	40	.017	45	−5
Nebraska	.183	41	.022	40	+1
Tennessee	.183	42	.023	38	+4
Georgia	.172	43	.021	42	+1
Kentucky	.166	44	.028	31	+13
South Carolina	.156	45	.019	44	+1
Alabama	.155	46	.023	37	+9
New Mexico	.152	47	.015	47	0
South Dakota	.122	48	.015	46	+2
North Dakota	.105	49	.010	51	−2
Arkansas	.089	50	.014	48	+2
Mississippi	.076	51	.012	50	+1

CONFIRMATION OF NOMINATION OF FRANCIS BIDDLE

During the delivery of Mr. DOWNEY's speech,

Mr. CONNALLY. Mr. President, will the Senator from California yield to me for a moment to permit me to call up a nomination?

Mr. DOWNEY. Certainly; I am very happy to yield.

Mr. CONNALLY. Mr. President, I ask unanimous consent, as in executive session, to call up the nomination of Mr. Francis Biddle as Attorney General.

Mr. McNARY. Mr. President, I am sure the nomination is on the Executive Calendar. I am advised that it is the unanimous report of the committee, and that Mr. Biddle desires to leave the city. I join in the request made by the able Senator from Texas.

The VICE PRESIDENT. Is there objection? The Chair hears none. As in executive session, the nomination will be read.

The legislative clerk read the nomination of Francis Biddle, of Pennsylvania, to be Attorney General of the United States.

The VICE PRESIDENT. The question is, Will the Senate advise and consent to this nomination?

Mr. CONNALLY. Mr. President, I thank the Senator from Oregon very much for his courteous cooperation.

The Committee on the Judiciary, after complete and full and final hearings, voted unanimously for the confirmation of the nomination of Mr. Biddle. I understand that he has some engagements that call him out of the city. For that reason I should like to have the nomination acted upon now, so that he may take the oath and leave on his trip.

The VICE PRESIDENT. Without objection, the nomination is confirmed.

Mr. CONNALLY. I ask unanimous consent that the President be immediately notified.

The VICE PRESIDENT. Without objection, the President will be immediately notified of the confirmation of the nomination.

After the conclusion of Mr. DOWNEY's speech,

REVENUE ACT OF 1941

The Senate resumed the consideration of the bill (H. R. 5417) to provide revenue, and for other purposes.

The VICE PRESIDENT. The question is on agreeing to the last committee amendment passed over, the amendment on page 32.

Mr. HATCH. Is that the community-property amendment?

The VICE PRESIDENT. It is.

Mr. HATCH. I suggest the absence of a quorum.

The VICE PRESIDENT. The clerk will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

Adams	Downey	Murray
Aiken	Eastland	Nye
Andrews	Ellender	O'Daniel
Austin	George	O'Mahoney
Bailey	Gerry	Overton
Bankhead	Gillette	Peace
Barbour	Green	Radcliffe
Barkley	Guffey	Rosier
Bilbo	Hatch	Russell
Brewster	Hayden	Schwartz
Bridges	Herring	Smathers
Brooks	Hill	Smith
Brown	Holman	Spencer
Bulow	Hughes	Taft
Bunker	Johnson, Colo.	Thomas, Idaho
Burton	Kilgore	Thomas, Utah
Butler	La Follette	Tobey
Byrd	Langer	Truman
Capper	Lee	Tunnell
Caraway	Lodge	Tydings
Clark, Idaho	Lucas	Vandenberg
Clark, Mo.	McCarran	Van Nuys
Connally	McFarland	Wallgren
Danaher	McNary	Walsh
Davis	Maloney	Wiley

The VICE PRESIDENT. Seventy-five Senators having answered to their names, a quorum is present. The clerk will state the last committee amendment passed over.

The LEGISLATIVE CLERK. It is proposed to insert on page 32, section 119, as follows:

SEC. 119. Community income.

The Internal Revenue Code is amended by inserting after section 28 the following new section:

"SEC. 29. Community income.

"For the purpose of determining the income-tax liability of any individual:

"(a) Income earned by each spouse (whether or not treated as community property under the State law) shall be considered as the income of the earner thereof.

"(b) Income derived from property of the marital community (except such property as constitutes either income derived from the separate property of either spouse or property acquired therewith) shall be considered as the income of the spouse who has the management and control thereof under the law of the jurisdiction in which the marital community exists.

"(c) In case the spouses elect to file separate returns, the spouse required under this section to treat such income as his individual income shall alone be entitled to the deductions and credits allowed under this chapter which are properly allocable to such income."

Mr. GEORGE. Mr. President, the senior Senator from Alabama [Mr. BANKHEAD] offered an amendment to the pending tax bill with reference to the pension amendment which the Senator from California announced might be offered to the bill by him later. I have given some consideration to the suggestion contained in the amendment of the senior Senator from Alabama, and I am clear in my own mind that the better course would be not to offer the amendment asking the Ways and Means Committee to give consideration to the pending question, but to proceed with a hearing for the purpose of developing the facts and formulating legislation which could be offered as an amendment to any appropriate revenue bill coming over from the House hereafter. So I express the hope that the Senator from Alabama might find it consistent not to urge the amendment which he suggested. I am sure that we appreciate his purpose and interest, but I think perhaps the other course would accomplish better results.

Mr. BANKHEAD. Mr. President, I have very great confidence in the judgment and the sincerity of the chairman of the Committee on Finance, the eminent Senator from Georgia [Mr. GEORGE]. The thought has been expressed here that the proposed action might have a tendency to create prejudice at the other end of the Capitol against the proposal, and I do not wish to do anything which might jeopardize the best interests of the proposal. In view of the judgment expressed by the Senator from Georgia that the amendment should not be included in the pending bill, I shall acquiesce and follow his suggestion and not press for action on the amendment. However, I wish to say that I think what has been done here today under the leadership of the junior Senator from California will serve a most useful purpose. It has been demonstrated that there is keen and active and aggressive interest in action, at least, on an old-age-pension bill. I think it has been clearly manifested, so that Members of the House will understand, that unless some action is taken in that originating body we will feel free here to act in an appropriate way at the proper time by a rider to some other tax bill. So I feel that, on the whole, we have made good progress today, and I shall not offer the amendment.

Mr. CONNALLY. Mr. President, I wish to say to the Senator from Alabama [Mr. BANKHEAD] and to the Senator from Georgia [Mr. GEORGE] that I also have pending a measure relating to the Social Security Act, particularly the old-age-pension matter, which I had expected to offer to the pending bill in case the Senate considered other amendments along that line, but I shall not offer it because of the assurances made by the Senator from Georgia that at some later time a complete hearing may be had and that the whole question may be considered. I will say that the measure which I had intended to introduce, and which I intended to offer as an amendment to the pending bill, has the unanimous approval of the Social Security Board. It deals with what is known as the variable grant, and relates to the percentage of contribution made by the Federal Government to the various States for the purpose of paying old-age pensions. It would materially help the weaker States which are not now making adequate appropriations. However, I do not wish to press the matter on the Senate now, and I shall refrain from offering the amendment and let it lie over, as suggested by the Senator from Georgia.

PERSONAL EXPLANATION

Mr. AIKEN. Mr. President, I rise to a question of personal privilege. In the nationally syndicated column The Washington Merry-Go-Round, written by Drew Pearson and Robert Allen, and which appeared on August 30 in many newspapers throughout the country, it was stated that certain Senators and Representatives were being used by Nazi agents for the purpose of selling and distributing anti-British books and propaganda material.

It was charged that the Flanders-Hall Publishing Co., Scotch Plains, N. J., had issued publicity listing several Senators and Representatives as boosting a book entitled "The 100 Families That Rule the Empire." This column alleged that testimonials from several Senators and Representatives, including myself, were used to promote the sale of this book.

When I returned to Washington last Tuesday I called Mr. Robert Allen about this matter, and he has since sent me a photostat of the circular referred to. On one side of it appear alleged testimonials of the several Senators and Representatives, and on the other side it reads:

A sensation from coast to coast * * * a "bombshell" in official Washington * * * front page in the Herald Tribune * * * lengthy columns in the Sun, the Post, and many others. * * *

The implication was that these newspapers, including the New York Herald Tribune, are also endorsing this book, which I doubt very much is the case.

The so-called testimonial which I am supposed to have contributed to this circular reads as follows:

I guess those boys tie in pretty closely with the colonies.

Mr. President, I want to say here and now that I never heard of the Flanders-Hall Publishing Co. until this week. I have never read the book referred to. I have no idea what its contents may be, and I certainly have never given any testimonial to be used for promoting the sale of this book or any other book falling within the category of propaganda.

I am advised by my secretary that such a book was brought to my office and was deposited in the wastebasket, where it belonged, along with the day's usual supply of propaganda material which comes from all sources.

Mr. President, I do not attempt to speak for the other Members of the Senate and House who allegedly gave these testimonials. It would appear to me that practically all, if not all of them, have been placed in a false position, or what they said was put forth in a misleading manner. But I wish to say that, so far as I am concerned, I never have and never expect to give the use of my name for promoting any propaganda material of this nature.

REVENUE ACT OF 1941

The Senate resumed the consideration of the bill (H. R. 5417) to provide revenue, and for other purposes.

Mr. CONNALLY. Mr. President, a parliamentary inquiry. What is the pending amendment?

The VICE PRESIDENT. The committee amendment on page 32, the so-called community-property amendment.

Mr. CONNALLY. I suppose some proponent of the amendment would like to discuss it first. If not, I am prepared to discuss it.

Mr. GEORGE. Mr. President, I discussed the amendment in the opening statement which I made on the bill, and I do not care to go into it at this time, because I realize that Senators from the so-called community-property States will desire to debate this issue. I reserve what additional statement I may care to make, so far as I am concerned, until a later period in the debate.

Mr. President, there is a possibility that we might profitably have disposed of other matters at this time. I am not advised of any other pending committee amendment except the one in question. The bill has not been thrown open to general amendment yet, except in one instance. So I suppose we might as well proceed with the consideration of this matter at this time.

Mr. CONNALLY. Mr. President, the Finance Committee spent 3 weeks in

considering the bill, 2 weeks of which were devoted to hearings, and I apologize to the Senate for taking up any of its time in discussing this particular amendment, but this is the only place, here on the floor of the Senate, where we are able to get a hearing. The Senate Finance Committee—and I say it with all due respect and affection for my associates—were willing to hear those who came before it on the question of bottled drinks, and admissions to theaters, and jewelry, and the percentage of tax which should be paid on slot machines, but the committee did not have any time which it could accord to the citizens of eight sovereign States when it came to a proposal to repeal by indirection the property laws of those States. We could not get any hearing on that matter.

The Senator from Texas happens to be the only member of the Finance Committee who comes from a community-property State. So, like the boy who stood on the burning deck, I was the only one who could not flee.

Mr. HATCH. We did not flee.

Mr. CONNALLY. I am talking about the other members of the Finance Committee. The Senator from New Mexico is not a member of the Finance Committee. So, Mr. President, I was alone able to beg and plead with the committee to postpone the matter and let it go over until the administrative bill shall be taken up this fall, but those supporting the proposal were so zealous, and they had such a passion for getting money out of our pockets, that they would not postpone the matter at all. But when it came to the joint return, which would have affected New York State, that rich State; or Illinois, with Chicago; or Michigan and automobile fortunes—"Why no; we cannot tolerate that. We will not tolerate that for a moment." The Finance Committee just dismissed that proposal and said, "Oh, well, that matter can wait for some future bill. Putting everybody in the same boat, and having a joint return for a woman's millions in New York, along with her husband's millions—we will not tolerate that, we will not think about considering that question at this time."

As soon as they had disposed of that matter very quickly and efficaciously they called up for the attention of the guillotine—and the guillotine has returned to modern life, at least in Paris—the nine community-property States.

My excuse for discussing this matter in the Senate is that this is the only place where we can obtain a hearing. The Senator from Pennsylvania [Mr. DAVIS] knows that, because he is a member of the Finance Committee.

Mr. DAVIS. So is the Senator from Texas.

Mr. CONNALLY. I am and, as I say, the Senator from Pennsylvania knows that this is the only place where we have had a hearing.

While I am looking at the Senator from Pennsylvania, I wish to tell him that if he wishes to tax the property of the women and poor folks of my State in the name of somebody else, it will not be long before the millionaires of Pittsburgh will be including the income of their wives in their own returns, and paying a single tax on it. We have some votes. That is not a threat, but simply a little side remark which may or may not be considered in the future.

Mr. President, I have been a member of the Finance Committee for 12 years. During that time I have been through a fight on this question every time a tax bill has been before us. We used to work under the Republicans. The Republicans never imposed such a tax. They never endeavored to do so, except as a sort of gesture. We argued the question with them, and reasoned it out with them. They saw the reason of it, and abandoned the effort.

But under the Democratic administration the present Secretary of the Treasury, Mr. Morgenthau, from New York, has reversed the public policy with regard to this matter, and is out gunning for Texas, Louisiana, New Mexico, Arizona, California, Nevada, Washington, Idaho, and Oklahoma. Most of those States voted the Democratic ticket in the last election. The theory of the Secretary of the Treasury seems to be that if possible we should drive them back into the Republican Party at the next election.

The Secretary of the Treasury undertakes to reverse the policy of my State, which it has had in its constitution and its statutes for more than a hundred years. While the present Secretary of the Treasury was still in the great womb of the unborn my State had this doctrine and this policy. The men who fought the Battle of San Jacinto, before they wiped the blood from their swords, put this doctrine into the Constitution of the Republic of Texas. They said, "In this republic of ours we recognize a marital partnership. The earnings of that marital partnership shall belong half to the husband and half to the wife."

That principle went into the constitution of my State. When Texas came into the Union it came with that clause in its constitution. If the Union did not want us why did it not turn us down? We did not surrender our rights. We did not agree to wipe out our constitution. We did not agree to repeal our statutes for the privilege of giving up our sovereignty as a republic among the states of the world. We thought that our constitution and our laws would be respected. They have been respected in this particular at least until the present Secretary of the Treasury advocated the reversal of the policy.

They are now having a conference in a little room, and before we can act on this matter we must obtain the consent of some little fellow in the Treasury Department. That is why I am speaking today.

Mr. GEORGE. Mr. President, will the Senator yield?

Mr. CONNALLY. I yield.

Mr. GEORGE. I think the Senator is speaking entirely out of order in making such a statement.

Mr. CONNALLY. What statement?

Mr. GEORGE. The statement which the Senator has just made, that a conference is now being held in a little room, and that we must obtain the consent of some little fellow in the Treasury Department before we can act on this matter.

Mr. CONNALLY. Is not a conference in progress?

Mr. GEORGE. Yes; but in good faith, because of the Senators from community-property States, who are looking to a possible avoidance of the issue at this time so as not to prolong the debate on a bill which ought to be passed.

Mr. CONNALLY. Very well. I accept the Senator's statement.

Mr. GEORGE. I do not want the Senator to accept it in that way.

Mr. CONNALLY. I do not know a thing about the conference. I suppose the Senator does, because he says it is going on. I have no disposition to criticize the Senator. I am glad it is going on, because I am hopeful that it may result in some good.

Mr. GEORGE. I do not think the Senator's statement is fair when by clear inference and implication he suggests that the committee and the Senate are awaiting a decision by someone on the outside.

Mr. CONNALLY. Very well. I will withdraw the statement.

Mr. GEORGE. I hope the Senator will.

Mr. CONNALLY. I know we are waiting.

Mr. HATCH. Mr. President, will the Senator yield?

Mr. CONNALLY. I yield.

Mr. HATCH. The statement was made by the Senator from Georgia that perhaps this controversy may be eliminated in order that the debate may not be prolonged. That reminds me that it has been suggested to those of us who come from the community-property States that we have no right to prolong the debate, and that we should not talk, lest we be accused of filibustering on a very important measure of this kind when each day the debate is prolonged millions of dollars in excise taxes are lost. Of course the Government does not collect the taxes so long as the debate is prolonged. We do not want to be charged with filibustering, if that is the imputation just made.

Mr. GEORGE. No, Mr. President. If Senators want this matter to go straight through to a final issue the chairman of the Finance Committee is ready to carry it through. I have made no charge that there is any filibuster. In perfect good faith I had a conference this morning with three Senators from community-property States in the hope that we might let this particular matter go over until a subsequent tax bill comes before the Senate.

There has been no suggestion of filibuster. On the contrary, the frank statement has been made by me and by Senators from the community-property States that they have the right to discuss the issue and are expected to do so. Some of us desire to bring the debate to a conclusion at the earliest possible time, consistent with fair discussion. There has been no suggestion of filibuster, or any intention on the part of anybody to filibuster.

Mr. HATCH. There has been no suggestion on the floor, but it has been made. It has been made to me.

Mr. GEORGE. Mr. President, I ask the Senator to wait a moment. It has not been made on this floor.

Mr. HATCH. No; it has not.

Mr. GEORGE. I have not made it, and I have not intimated it.

Mr. OVERTON. I wish to say, in justice to the chairman of the Finance Committee, that I was in the conference this morning, and he very frankly stated to us that he knew the deep interest the citizens of the several community-property States have in this amendment, and that he expected any or all Senators who have the honor of representing such States to present to the Senate a discussion of the amendment, and he did not feel that in doing so we would be undertaking any filibuster.

Mr. HATCH. I am very glad to have that statement. I was not at the conference.

Mr. OVERTON. I was, and I desire to say that the chairman of the Finance Committee was very nice about it. He did not express any desire that we should withhold any argument we might have to make, and which he realized we would have to present upon the floor. I think he rather expects us to present our views upon the floor, and he did not suggest to us that we should curtail our speeches.

It is true, as the Senator from Georgia has stated, that he would like to see as prompt a disposition of the bill as possible, but he realizes that this amendment is one which vitally concerns the eight community-property States, and that each Senator from each of the eight community-property States is vitally interested in this amendment, is strongly opposed to it, and should have the opportunity of presenting his views upon the floor.

I desire to say that the chairman of the committee treated us very nicely in the conference we had. Let me say further that I realize what the Senator from New Mexico said awhile ago, that there is a rumor of an intention to filibuster. I think I can speak for the Senators from Texas, the Senators from New Mexico, the junior Senator from Louisiana, my colleague, and the Senators from California, Washington, Nevada, Idaho, and Arizona, in saying that there is no intention on the part of any of these Senators to filibuster, but in the event this amendment should be adopted they do not propose to go back to their States and have their constituents say to them, "Well, the Senate forced this income-tax amendment on our people. What have you to say about it? What fight did you put up?" "Well, I did not say anything."

I do not intend to be placed in that attitude, and I am sure the Senator from New Mexico does not. I have certain views to express about the question. Louisiana is, I think, the oldest community-property State in the Union. We had that system in colonial days. We came into the sisterhood of States with that system of property ownership, and, of course, I desire to say something about it at the proper time.

I thank the Senator for yielding.

Mr. HATCH. I merely desire to say that I did bring out in the open the question of filibustering, because it had been charged—not on the floor—that we were going to filibuster on a bill which involved a great national emergency. I think we shall discuss the bill. So far as I am concerned, I think I can say in 15 minutes all I have to say on the bill. Other Senators may have different views, but when the Congress is asked to legislate for the State of New Mexico and to change property rights of the citizens of my State I do not propose to be here while that goes on without saying some word. If I do not get through in 10 minutes, and if I desire to take 20 minutes, or an hour, or 2 hours, I shall do so. I thank the Senator.

Mr. CONNALLY. Mr. President, I desire to say to the Senator from Georgia particularly, and to other Senators, that in my rather sharp remarks about the Treasury I meant no stricture whatever on the Senator from Georgia. I very greatly appreciate his attitude and his conferences. I am very happy that he is the chairman of the Finance Committee. I feel honored in being able to serve under him, and I have always undertaken to show him every consideration, as he has always accorded every consideration to me.

So far as I am concerned, if the Senator from Georgia desires to postpone consideration of this matter to some future time, of course, that will be entirely agreeable to the Senator from Texas, and I am sure it will be agreeable to all Senators who are similarly affected. I probably showed a little heat, but I was not talking about the Senator from Georgia. I was talking about the time the Treasury Department always gets before the committee—and it is proper that it should get time—to explain its views on everything before us, whereas we were not accorded any opportunity of a hearing on this particular proposal.

Mr. HAYDEN. If I may interrupt, the Senator is well aware that there are able lawyers and others in the community-property States who would insist upon appearing before the Committee on Finance in order that the problem might be thoroughly understood. They are entitled to a hearing; and I am satisfied that if the committee heard the case completely, the result would be as it has been in previous years—the amendment would not be reported from the committee.

Mr. CONNALLY. I thank the Senator.

Mr. HATCH. Mr. President, will the Senator yield at that point?

Mr. CONNALLY. I yield.

Mr. HATCH. I desire to say that I am so confident of the accuracy of what the Senator from Arizona has just said that I feel sure that if the Finance Committee understood the community-property law as it exists in my State and in his State, the committee never would report this amendment. I feel that way about the chairman of the committee. I have such high regard for his legal ability and his integrity that I think that if he thoroughly understood the law as it is in New Mexico, he himself would be here opposing this amendment. I certainly think that if the committee is going to attempt to do something to us—something which this bill would do—the members of the committee should afford us the opportunity of having lawyers and other persons from our States appear before it so that we might at least have our views presented to the committee.

Mr. HAYDEN. There are just two points to be considered, which appeal to me. One is that the doctrine of community property was adopted long before Congress was enabled by constitutional amendment to enact an income-tax law. In the part of the United States which originally belonged to Spain, and then to Mexico—that is, California, Nevada, Texas, Arizona, and New Mexico—and in Louisiana, which came by way of France, under the Code Napoleon that precedent was established.

Mr. HATCH. If I may interrupt the Senator, the practice began in the twelfth century.

Mr. HAYDEN. But the constitutions of those States and all the laws enacted in those States were enacted long before Congress had power to pass an income-tax law; so that this is no newly devised scheme to evade the law.

Mr. McCARRAN. Mr. President, will the Senator yield there?

Mr. HAYDEN. Yes.

Mr. McCARRAN. Let me say, in addition to what the Senator has just said, that the community-property laws, which originally were fundamental in the constitutions of the States carved out of the territory referred to, were approved in the first instance, and the enabling acts passed by the Congress of the United States contained this special provision with respect to each of the constitutions of the respective States referred to. In other words, there were in these organic laws provisions regarding community property, and Congress acquiesced in those provisions.

Mr. HAYDEN. The other point is that the Supreme Court of the United States in numerous decisions has held that the taxpayer who owns the property should pay the tax. There is no question about who owns community property; it belongs one-half to the husband and one-half to the wife. That very issue has been passed upon by our Supreme Court; and my judgment is that if this tax is enacted, and if it is taken to the Supreme Court, the net effect will be that it will have to be refunded with interest at 6 percent. It will not stick if the Supreme Court of the United States is in any manner bound by its numerous precedents.

Mr. HATCH. Mr. President, will the Senator yield there?

Mr. HAYDEN. I yield.

Mr. HATCH. The Senator refers to the ownership of income. This bill does not.

Mr. HAYDEN. I understand that, but the Supreme Court has decided that he who owns the property shall pay the tax.

Mr. HATCH. No; but the bill starts a brand-new theory. Ownership is not involved. It does not make any difference who owns the income; this bill says that in the community-property States the one who earns the income shall pay the tax.

Mr. HAYDEN. That does not conform to the decisions of the Supreme Court in numerous instances.

Mr. HATCH. Who earns the Senator's income? I will withdraw that question for fear it might embarrass the Senator.

Mr. HAYDEN. I hope the Senator will.

Mr. HATCH. I say it is a brand-new theory of taxation. I do not think any committee ever before devised a scheme which eliminated the question of ownership altogether and provided that whoever earns the income must pay the tax. I thank the Senator from Texas.

Mr. CONNALLY. Mr. President, I shall be glad to yield if the Senator desires to proceed further.

On the point that is suggested by the Senator from Arizona and the Senator from New Mexico, this bill undertakes to say that, no matter if the wife does own half the community income and the husband owns the other half, he shall pay a tax on all of it.

Mr. HATCH. No, no; the bill does not say that. It says the person who earns the income must pay the tax.

Mr. CONNALLY. That is the theory of the Senator, that the husband is to be taxed not only for his interest in the income but also for his wife's interest in the income. The Supreme Court of the United States has passed on this question; it passed on it in a case from Wisconsin, which is not a community-property State.

Mr. HATCH. May I interrupt the Senator again?

Mr. CONNALLY. I am glad to yield.

Mr. HATCH. There is another rule which is laid down which is a little different. It is this:

> (b) Income derived from property of the marital community (except such property as constitutes either income derived from the separate property of either spouse or property acquired therewith) shall be considered as the income of the spouse who has the management and control thereof under the law of the jurisdiction in which the marital community exists.

So that is another test which is laid down. It is not a question of ownership but a question of who has the management and control.

Mr. CONNALLY. I thank the Senator. I was going to suggest that the Supreme Court of the United States in a number of cases has held that the Senator from New Mexico cannot be taxed for the income of somebody else, nor can the income tax of the Senator from New Mexico be measured by comparing it or adopting as a standard somebody else's income.

Mr. HATCH. If the Senator will yield further, I merely wish to illustrate what complications the Internal Revenue Bureau will have with this sort of language in a tax bill. There are certain instances under the laws of New Mexico when the wife becomes the head of the community and has the management and control thereof. In those cases, then, the wife will pay on the entire return. Who is going to determine who earns the income? Who is going to determine who is the manager and person in control of the community property? Is some agent from Washington going out into my State and look at me and say, "I do not think you earned that income"—and I doubt it myself many times—"I think your wife earned it." These thoughts keep coming to my mind, and I can hardly refrain from expressing them.

Mr. CONNALLY. I am always delighted to meet a mind so fertile as that of the Senator from New Mexico, who can advance new suggestions and new ideas which would never occur to some of us who lead more prosaic lives.

Mr. McFARLAND. Mr. President, will the Senator yield?

Mr. CONNALLY. I yield.

Mr. McFARLAND. Inasmuch as the question of who earns the income is being discussed I should like to know who would make the return in case of a man living on a farm who goes out in the morning and works in the field while the wife works at home, takes care of the children and the chickens and takes the butter and eggs off to town and sells them. Who is going to make the return then? They are both working on the farm; they are in partnership according to the laws of Texas, Arizona, and other States. Who will make the return under this proposed law?

Mr. CONNALLY. I will say to the Senator from Arizona I hope we will never have to determine that question, but if this amendment should be adopted, I believe that some clerk in a department in Washington would decide who is the manager of the chicken farm or ranch in Arizona.

Mr. McFARLAND. How is it going to be possible to separate the returns from chickens and those from cows and make a separate return for each? The wife takes care of the chickens and the husband takes care of the cows. Is the income to be combined or how is it going to be done?

Mr. CONNALLY. I can only speak of the purpose of this amendment. The purpose of this amendment is to throw both incomes into one income so that a higher rate of tax will be obtained. To be frank, that is what is being sought.

Mr. HATCH. Mr. President, will the Senator yield further?

Mr. CONNALLY. I yield.

Mr. HATCH. I should like to ask the Senator a question. He has already mentioned the fact that the committee has very jealously guarded the income from the separate estate of the married woman in the States of New York, Pennsylvania, and other States. The committee says that is her separate property, so she may file a separate return. That situation has been taken care of very nicely, but in the Senator's State and in my State the wife's part of the community property is just as much her separate estate as is the income of the married woman in New York from her separate property. Is not that correct?

Mr. CONNALLY. Yes.

Mr. HATCH. So we have in the other States a special favor. Much is said about our receiving special favors, but the married women in those States may make their own separate returns as to their separate property. In my State, however, they cannot do that, because the honorable Committee on Finance of the Senate of the United States says there must be a different rule in the community-property States than in other States of the Union.

Mr. OVERTON and Mr. McCARRAN addressed the Chair.

Mr. CONNALLY. I wish to say a word further, and I shall be glad to yield. Let me say to the Senator from New Mexico that the Treasury has complained to the committee—I do not know how strong the complaints were—that in other States men of great fortune have voluntarily transferred to their wives half their property; the wives have then made separate returns, and the husbands have made separate returns. The Treasury have complained at that and wanted something done in this bill to penalize them for doing that, but, of course, in those cases where the income has been divided in that fashion the situation cannot be corrected retroactively now, as I see it. But that is what has happened in many States. A rich man says, "I will give my wife half my property and thereby get a reduction in my income tax." That can happen in the case of a separate estate, but it cannot happen under this amendment in any State which is a community-property State, because, regardless of what happens to the income after it is received, if it is community income, under this bill it has got to pay under a single return.

Furthermore, let me point out that a prosperous man in New Mexico—and there are many of them in New Mexico——

Mr. HATCH. Not so many.

Mr. CONNALLY. Might make a million dollars, and half of that million dollars would belong to his wife.

Mr. HATCH. And it is absolutely her property. It becomes a vested interest in her.

Mr. CONNALLY. That is correct. Here is what the Supreme Court says: It agrees with the Senator from New Mexico, as I am sure it often does.

The Supreme Court of the United States, in *Hopkins, Collector,* v. *Bacon* (282 U. S.), held that the wife's income in the community amounted to "a present"—not a future, not a contingent, but a present—"vested interest equal and equivalent to that of her husband."

So the moment it is earned, under the Supreme Court decision, it vests directly in the wife. But let me carry the illustration further.

This man in New Mexico makes a million dollars in community—he and his wife. Immediately upon the acquisition of that million dollars, half of it belongs to his wife. The other half belongs to him. They move to the State of New York and take their money with them. The moment they cross the boundary of New York and acquire residence she can return her income from her half in a separate return; he can return his income in a separate return; but if they remain in New Mexico they have to make one return and pay on an income from a million dollars.

That is what this amendment proposes to do. That is what it will do. That is what it does do. That is what, by the grace of God, I hope it will not do.

Mr. OVERTON. Mr. President, will the Senator yield?

Mr. CONNALLY. I yield.

Mr. OVERTON. In that connection, talking about the absurd conclusions to which this Senate amendment leads, let me give an illustration or two.

Under the law of the community-property States the income of each spouse falls into the community.

Mr. CONNALLY. That is correct.

Mr. OVERTON. Under subsection (a) of the pending amendment the Federal Government says, "No; in spite of what the law of your State says, we are not going to treat the income as community income. It is going to be separate income; and if the wife is earning $3,000 it does not, for Federal income taxation, go into the common pot, although it is in reality community income. We are going to disregard the State law, and the wife must make a separate return and pay a tax on it."

Now, I desire to go a step further. Then we go to subsection (b) of the amendment. The wife has earned $3,000. The Federal Government has collected a tax from her on that amount as her separate income. She invests the $3,000 in revenue-producing property. Under the law of the community-property States the capital invested by the wife, earned by her during her marriage, is community property, and the revenue from it falls into the community. The Federal Government does not say, "We will collect a tax from you on the returns of this earned money that you invested in property," but it says, "We are going to treat this investment, made by you out of your own earnings, as community property. The husband is the head and master. We will add the income from your investments to his separate income, and he will have to pay a tax upon the total."

One moment the Federal Government, under this amendment, absolutely disregards and ignores the State law of ownership; and the next moment it picks it up and says, "We are going to recognize the State law"; and why? Because it adds more and more to the amount that has to be paid by the taxpayer.

Not only that, if the Senator will pardon me for going a little bit further, let me show how unjust and unreasonable the Senate committee amendment is.

Mr. CONNALLY. I am very glad to hear the Senator.

Mr. OVERTON. I say this with all due respect to the Senate Finance Committee, for whose members we all entertain the highest regard, and, I may add, with all due respect to the Treasury Department.

Mr. CONNALLY. All due respect. [Laughter.]

Mr. OVERTON. Yes; with all due respect.

The husband is making, say, $5,000 a year. He invests that money in property bought in his own name. In the common-law States it becomes his property; but in the community-property States, when he buys the property, even in his own name, it falls into the community. One-half belongs to the wife and the other half to the husband.

The wife dies. The husband has a million dollars' worth of property that he has accumulated out of his earnings during marriage. In the common-law States, if the wife dies, the husband's ownership is not interfered with. But, under the Federal inheritance-tax law Uncle Sam says to the husband, "One-half of that property standing in your name was bought during the marriage, and one-half belongs to your wife. Her estate must pay an inheritance tax upon that property acquired by you; we are going to collect a Federal inheritance tax." The State will, also, collect a State inheritance tax upon it.

Now let us go further. If the wife wills to the husband her half interest in the property which was acquired in his name—which would be his in a non-community-property law State—if the wife wills it to her husband then before the husband can take possession of it, under the Federal inheritance-tax law he will have to pay an inheritance tax upon $500,000, which would be one-half of the million dollars' worth of property that had been bought in his name and out of his own earnings during the existence of the marital partnership.

Do you not see to what absurdities this amendment carries the whole principle of community-property rights?

When the Federal Government undertakes to ignore the local State laws of title and ownership, and applies varying rules of taxation, income and inheritance, it does what leads to confused thinking and hopeless confusion.

Mr. McCARRAN. Mr. President, will the Senator yield?

Mr. CONNALLY. I will yield in a moment. Let me suggest to the Senator from Louisiana that in the non-community-property States, when a man gives his wife property he gets an exemption of $40,000 before any possibility of a gift tax attaches; but in the community-property States, if that $40,000 is a part of the community, full tax must be paid on it under this amendment.

I now yield to the Senator from Nevada.

Mr. McCARRAN. Mr. President, I wanted to draw to the attention of the able Senator from Louisiana and the able Senator from Texas a further thought, and that is that in a community-property State the husband cannot divest himself by will or bequest or devise of one-half of the property acquired during coverture. He can dispose by testamentary disposition of only the one-half which the law says belongs to him. The other half, however much he may attempt to dispose of the property by testamentary disposition, nevertheless remains the property of the wife, to be disposed of by her as she may see fit.

Mr. McFARLAND. Mr. President, will the Senator yield?

Mr. CONNALLY. I yield to the Senator from Arizona.

Mr. McFARLAND. The particular provision I had in mind a few moments ago, when I referred to raising chickens and pigs and cattle on the farm, was subsection (a) of section 29 under "community income," which states that—

> Income earned by each spouse (whether or not treated as community property under the State law) shall be considered as the income of the earner thereof.

Under our laws and under the laws of Texas, the income belongs half to the wife and half to the husband but, regardless of our law, this amendment would say that it shall be treated as the property of whichever one earned it, regardless of our laws. Then the amendment goes on to say that—

> Income derived from property of the marital community (except such property as constitutes either income derived from the separate property of either spouse or property acquired therewith) shall be considered as the income of the spouse who has the management and control thereof under the law of the jurisdiction in which the marital community exists.

It is my contention that these provisions were put in the bill to get around our community-property laws, but they have not been made broad enough, because they do not cover the situation of the wife who takes care of chickens and sells the chickens and gets a little money, and the man who takes care of pigs. Who is to make the return?

Mr. CONNALLY Let me say to the Senator that of course the intent of the amendment is that in that case they will tax all of that income on the theory that the husband is the manager and in control and charge. That is the purpose.

Mr. McFARLAND But subdivision (a) says that whichever one earns it pays.

Mr. CONNALLY. I understand.

Mr. McFARLAND The wife certainly earns the income when she takes care of the chickens and sells them.

Mr. CONNALLY. However, the theory of the amendment is that the husband, being in most States the legal head of the family, will pay the tax not only on his half of the community property, but on his wife's half. That is the purpose of the amendment.

Mr. McFARLAND I understand the purpose of the amendment is to compel a joint return.

Mr. CONNALLY. That is correct.

Mr. McFARLAND But I say the provision is not well written, that it is not complete, and cannot be made complete to meet the situation where the laws of a state provide that the property belongs half to the husband and half to the wife. We in Arizona in a way followed Texas. We were the last State to be admitted to the Union. We regard the husband and wife as partners. I get along just a little better by treating my wife as a partner. Some, perhaps the Secretary of the Treasury, may want to go back to the old common-law rule, under which the husband and wife are one, and the husband is the one. But I find that I get along a little better by treating my wife as a partner. Those of us from the community-property States recognize that principle, and all we ask is that our State laws be not interfered with, that our laws be respected, just as the laws in the noncommunity-property States have been respected. That is my contention, and I say an attempt has been made here to get around our law, but it has not been made complete.

Mr. CONNALLY. I thank the Senator from Arizona. He has made a very enlightening statement, which will be helpful.

The Senator from Louisiana [Mr. OVERTON] in his well-chosen remarks a little while ago, adverted to the origin of the doctrine of community-property theories. Louisiana, of course, belonged to France, but it also at one time belonged to Spain. Can the Senator inform us as to whether or not in the instant case of Louisiana that doctrine was adopted from the Spanish law, or from the French law? Both being Latin, I suppose the law may have been the same. I do not know.

Mr. OVERTON. The community-property law originated in Spain quite a number of centuries ago. My recollection was that it was in the seventh century, but the Senator from New Mexico said it was the twelfth century. At any rate, centuries ago the policy of the community-property system was adopted in Spain. The French adopted the community-property system of the Spaniards. At one time the State of Louisiana was under French domination, then under Spanish domination for a while, then back under French domination. It adopted the community-property system; what we know as the community of acquetes and gains, and what is commonly known as the marital partnership, from the French law, under the Code of Napoleon, which in turn got its inspiration from the Spanish law. So that long before the State of Louisiana was admitted into the Union we had the marital partnership, back in the old colonial days. Long before the United States effected the Louisiana Purchase we had the marital partnership. Long before the embattled farmers fired the shot heard round the world, long before the Declaration of Independence was written, we had the marital partnership. It is embedded in our tenure of property—real, personal, and mixed. In my opinion, the State of Louisiana would not surrender that method of acquisition, and ownership, and tenure of property under any circumstances. It has worked most satisfactorily.

Mr. HATCH. Mr. President, will the Senator permit a remark?

Mr. OVERTON. I yield.

Mr. HATCH. It is the most progressive system and the fairest system that has been devised.

Mr. OVERTON. It is the most progressive system and the fairest system, and I will state why I think so. It is because it recognizes the wife as a copartner of the husband. It recognizes the wife as a helpmeet to the husband.

Mr. HATCH. I wish to make this distinction. I agree wholeheartedly with the Senator, of course, that it is a fair system. It comes from the Spanish law. The common law puts the married woman in what class?

Mr. OVERTON. Originally married women were recognized only as chattels; but they have gradually progressed.

Mr. HATCH. As to property rights, the wife was placed in the same class with incompetents, minors, and I think it said insane persons. Is that correct?

Mr. OVERTON. That is correct.

Mr. HATCH. That is the common law. That is the difference. In our States we say that the wife is the full partner, and we have removed the disabilities which apply to married women under the common law.

Mr. CONNALLY. Let me suggest to the Senator this question, Was it not true that under the common law a wife who possessed property and chattels and estates prior to her marriage, upon marriage had to turn over that property and the husband became not only the possessor of her person, but of her property? And did not the law further provide that he had a right to whip her whenever he desired, provided he did not use a switch larger than his thumb? That is the old common law.

Mr. HATCH. Mr. President, will the Senator yield?

Mr. CONNALLY. I yield.

Mr. HATCH. Because we have been progressive, because we did recognize the rights of the wife to be equal with those of the husband, now it is proposed that we pay a penalty for that fairness. Is not that correct?

Mr. OVERTON. That is what is proposed.

Mr. HUGHES. Mr. President, will the Senator yield to me to ask the Senator from New Mexico a question?

Mr. CONNALLY. I yield.

Mr. HUGHES. I have a document before me which makes this statement as to New Mexico:

> In New Mexico when the husband dies he may leave his one-half of the community property to whomever he pleases, but on the other hand, unless a wife outlives her husband, it is a general rule that she cannot leave a dollar of her half to anyone, not even to her own children.

Is that correct?

Mr. HATCH. I wish to say to the Senator from Delaware that he has pointed out one of the defects in the system in New Mexico, which does give the husband a little more right than it gives the wife. But we are so far ahead of Delaware that I do not think the Senator should point out that slight defect. [Laughter.]

Mr. OVERTON. Let me make this observation: So far as Louisiana is concerned, the wife has a vested interest in one-half of the property acquired during marriage, whether it is acquired in her name or in her husband's name, and upon her death her one-half interest goes to her heirs at law, or to her legatees under her last will and testament, and her husband can do nothing about it.

Mr. HUGHES. Let me say to the Senator from New Mexico that he is a little unjust to Delaware. [Laughter.]

Mr. HATCH. I withdraw the remark I made.

Mr. HUGHES. Woman has been emancipated in Delaware to a very great extent. A woman can hold property, she can engage in business, she can also make a will, which the Senator's State does not permit.

Mr. HATCH. She can make a will in my State. In Delaware she could file her separate return as to her separate property under the amendment pending, but under the amendment she could not do so in New Mexico.

Mr. HUGHES. But a husband cannot bequeath his property without his wife joining him.

Mr. HATCH. He cannot in New Mexico, either.

Mr. HUGHES. In some of the community-property States he can.

Mr. HATCH. I doubt that. I doubt that there is any State in the Union where the husband can convey the community property without the consent of the wife. That is what the Senator from Delaware said could be done.

Mr. HUGHES. In the same document from which I have read it is stated, referring to California:

> Although California passed a law in 1917 requiring the signature of the wife to a sale of community real estate, the courts hold that the 1917 enactment does not prevent a husband from now conveying without his wife's consent such real estate as was acquired before 1917, or after 1917, if paid for with community money previously earned.

So, California has a different rule from that of the other of the community-property-law States.

Mr. HATCH. Mr. President, I know nothing about the California laws.

Mr. OVERTON. Mr. President, I may make the observation that under the California statute, however, a husband cannot dispose of the property in fraud of the wife's rights, and he cannot in any way jeopardize the interests of the wife in and to her moiety of the community property. So, that if in California a husband disposes of the property, one-half of the avails of the sale belongs to the wife and one-half to the husband.

Mr. HUGHES. When we speak of progress, and all that kind of thing, I may say that in the State of Delaware the husband cannot deed over his property, individual or otherwise, unless the wife joins in the deed.

Mr. OVERTON. Whether it is a separate property or not?

Mr. HUGHES. It does not make any difference. Nor can the husband put a mortgage on the property unless the wife joins with him in doing so.

Mr. HATCH. Mr. President, will the Senator from Texas yield to me?

Mr. CONNALLY. I yield.

Mr. HATCH. I desire to propound an inquiry to the Senator from Delaware, for he is a very able lawyer, and I know he understands the law of partnership. He has attempted to criticize the California law because the husband can convey property of the community. He sees that as a some sort of a vicious practice. But I will ask him this question: Cannot one partner convey the property of the partnership, and can he not bind the partnership?

Mr. HUGHES. Yes. Because of the fact that one partner could do that thing is the reason why we in Delaware came very near abandoning the partnership arrangement, and took to incorporating businesses, and so forth.

Mr. HATCH. The Senator from South Carolina [Mr. SMITH] has just observed under his breath that the conclusion of the whole matter, so far as this com-

mittee amendment is concerned, is "Do not have a wife." [Laughter.] I am very serious about that. The committee imposes a penalty upon the marital relationship. The committee imposes a penalty which does not apply to the other kind of partnership.

Mr. SMITH. That is correct.

Mr. DOWNEY. Mr. President, will the Senator from Texas yield to me?

Mr. CONNALLY. I yield.

Mr. DOWNEY. I desire to make a brief statement directed largely to the chairman of the Finance Committee [Mr. GEORGE] concerning the increased tax on wine, which is one of the most important commodities produced in our State. The Senate Finance Committee very markedly increased the rate on wine over that fixed by the House Ways and Means Committee, in fact the Finance Committee increased the rate so much that it resulted in an average increase of 100 percentage rate on wine. I personally believe the committee increased it to such an extent that it will be a serious burden upon our grape growers, who are just beginning to see daylight ahead, and to such an extent that it might defeat the very purpose of the tax bill that is the raising of additional revenue.

Mr. President, I am not now going to raise any issue upon this particular question upon the floor of the Senate. I merely appeal to the distinguished chairman of the Finance Committee carefully to consider the rights and equities of our grape growers upon this particular issue. The matter will come up in conference. We believe that the rate fixed in the House was a reasonable and fair one. We hope it will be accepted by our conferees. Our 30,000 grape growers would cheerfully pay that, or any other reasonable amount, but I should like to point out to the distinguished chairman that the increased rate on wine went far beyond the increase upon any other commodity. Indeed there is no other commodity in which the increase was anywhere near equal to the increase on wines. As I have said to the chairman of the committee, I do not desire to burden him at this time with any further argument. I am merely appealing to him that the whole question again be carefully considered when the issue is considered by conferees of the House and the Senate.

Mr. GEORGE. Mr. President, the question will be in conference as between the tax rates fixed by the Senate and the tax rates fixed by the House bill, and I can assure the Senator from California that the matter will be given consideration, and it will be very carefully considered, I have no doubt. The House conferees very likely will insist very strongly on the House rates, and the whole question can be examined in conference in the light of all the facts brought before the conferees.

Mr. DOWNEY. I thank the Senator from Georgia very much. Now I thank the distinguished Senator from Texas, who has allowed me for a brief time to intrude upon his argument. I wish to state that I enthusiastically approve the very able argument that he has been making upon the community-property tax.

Mr. CONNALLY. I thank the Senator.

Mr. DOWNEY. I join with him in appealing to the Senate carefully to consider this question which has been raised here. The rights of the people of California, I believe, are identical with the rights of the people of Texas, and I hope the Senate will support the position taken by the Senator from Texas.

Mr. CONNALLY. I thank the Senator from California for his very generous remarks. I may add at this point that California and Texas historically have some very intimate relationships. California was still slumbering in the bosom of Mexico when, as the result of the admission of Texas into the Union, the Mexican War was provoked in 1846 to 1848, and one of the results of that successful war won by the United States was the treaty of Guadalupe Hidalgo, which resulted in bringing California under the jurisdiction of the Federal Government, and later in 1850, as I recall, it was incorporated into the Union as a State.

Mr. President, I rejoice to strike hands across the space which lies between us, with the Senator from California, a representative of the great State which Texas had some small part in bringing into the Union. I am glad that he reciprocates those sentiments of ours, and that we have adopted and retained all these years the very beneficent and progressive recognition of the rights of wives and womanhood. We believe that a woman who is worthy to bear our sons is worthy to have half the revenue produced by our hands. I am glad to share with California that progressive, forward-looking, and, I almost said altruistic, doctrine giving to the women half of the earnings of the marital partnership.

Mr. DOWNEY. Mr. President, will the Senator again yield to me?

Mr. CONNALLY. I yield.

Mr. DOWNEY. I wish to express my appreciation of the courteous remarks made by the distinguished Senator from Texas. I realize well that the genesis of our State is closely connected with the historical development of the great State of Texas. We are proud and happy that we have developed as one of the Commonwealths of the United States as the result of the movement initiated by the great State of Texas. I might also say that hundreds of thousands of our most sturdy sons are descendants of one-time residents of Texas who left that beautiful empire to go to the even more marvelous State of California.

Mr. CONNALLY. I thank the Senator. If I have any criticism to make of his remarks, it is that he referred to thousands of our sons. He meant, of course, to include the daughters.

Mr. DOWNEY. That is correct.

Mr. CONNALLY. We have not only sent many sturdy sons, but we have sent to the stages of Hollywood many attractive women from our State who have lifted the standards of the stage away beyond former levels.

Mr. GEORGE. Mr. President, will the Senator yield?

The PRESIDING OFFICER (Mr. KILGORE in the chair). Does the Senator from Texas yield to the Senator from Georgia?

Mr. CONNALLY. I yield.

Mr. GEORGE. I myself have not been able to meet with the Finance Committee, and, of course, would not disturb the Senator from Texas, who was addressing the Senate. However, a majority of the committee has considered this matter, and has considered postponing this particular amendment——

Mr. CONNALLY. The Senator means taking it out of the bill. We could not very well postpone it.

Mr. GEORGE. Yes. I mean eliminating it from the bill.

I take it that, as the Senator from Texas said in the beginning of his address, Senators who oppose the amendment would offer no objection to its elimination, with the understanding that in the administrative or any other tax bill which may come before us a hearing will be had on this question, and the committee will again consider whether it will report favorably to the Senate the so-called community-property income tax.

The committe has decided that in the interest of expeditious action upon the bill, and without any criticism of Senators from community-property States, but in full recognition of the fact that Senators from those States have the right to present their case to the Senate and to the country, the committee is willing to eliminate this particular recommendation from the pending bill and will expect, after hearings, again to consider whether it shall be brought to the Senate in some subsequent bill.

That is all I have to say. I hope the Senator realizes, as I am sure he does, that the Finance Committee has no disposition not to grant hearings. This matter has been the subject of frequent and long discussion before the Ways and Means Committee and the Finance Committee. I think at one time a similar bill passed the House and was defeated in the Senate. I know that during my period of service such a bill was once reported to the Senate but was defeated in the Senate. In view of those circumstances we thought that the committee had fair knowledge of the facts and could present the matter to the Senate for discussion.

There is no disposition whatever to lodge the slightest criticism against Senators from community-property States; and I feel certain that if, after hearing, the committee again reports this amendment on a subsequent bill the matter will then be debated in the Senate. If that should happen, the Senate would have some opportunity to express itself on the merits of the proposal.

Mr. BARKLEY. Mr. President, will the Senator yield?

Mr. CONNALLY. I yield.

Mr. BARKLEY. Inasmuch as the Senator from Georgia did not leave the Chamber, as he has already explained, he asked me to get together as many members of the Finance Committee as could be reached on short notice. A

majority of the membership of the committee, without regard to party, assembled and considered this matter.

I think it is due the committee to say that in reaching the conclusion that, under all the circumstances, this matter should be eliminated from the bill and the consideration of it postponed until the next tax bill comes before us the committee members did not wish to be understood as changing their views on the fundamental question involved in the amendment.

Mr. CONNALLY. Mr. President, I hope the Senator will not be ungracious.

Mr. BARKLEY. I am not trying to be; but I think it is due the members of the Finance Committee to say that they have taken this attitude from a desire to be fair to the Senators and the people of the States involved. I do not think there was any desire on the part of the Finance Committee to do otherwise, even when it considered the matter the other day. The Senator from Texas, who now occupies the floor, made a more able argument before the committee against the amendment than could all the lawyers in Texas who might be brought here to discuss it. No one in Texas could make an abler argument against it than the Senator made before the committee.

Mr. CONNALLY. I thank the Senator. The elimination of the amendment would not benefit the Senator from Texas. I am a single man.

Mr. BARKLEY. I understand that. I would not, even by inference, attribute to the Senator from Texas any personal motive in his attitude.

It is true that the House of Representatives passed such a bill in 1921. The Senate committee reported a similar measure in 1934, and it was defeated in the Senate. So the subject has been before the Congress for a long time. However, the membership of committees changes, and it is difficult to expect new members of a committee in either House to go back and dig up dusty hearings held years ago on a subject that is now before the committee or before the Senate, and read them.

In order to be fair, and not to have even the appearance of unfairness to the community-property States, even the majority of the members who voted for the amendment in the committee felt that it was fair to eliminate it from this bill with the understanding, as the Senator from Georgia has said, that either in connection with the administrative bill—which we think is on its way—or some other revenue bill, which must originate in the House, the Senate committee reserves the right to go into the matter in full hearings and then reach its determination at that time as to what should be done.

Mr. CONNALLY. I thank the Senator from Georgia and the Senator from Kentucky for their statements. However, I wish to say that they qualify the matter by saying that Senators on the Finance Committee have not changed their minds. Let me say that we have not changed our minds and do not expect to change our minds. Senator say that the amendment may be eliminated with the understanding that a certain thing will be done. I am not agreeing to any understanding. That is up to the majority of the Finance Committee. The majority of the Finance Committee can consider this matter whenever it wishes to do so. I do not wish to be put in the position of voluntarily agreeing to be assassinated. [Laughter.] I want it to be involuntary.

Mr. BARKLEY. I appreciate that. I think the Senator from Texas will agree that, in view of the vote on this matter in the committee on two or three different occasions in connection with this bill, the members who are now willing to eliminate the amendment ought not to be put in the attitude of having abandoned their position.

Mr. CONNALLY. No. That is "good stuff." The newspapers will note it. That is the Japanese doctrine of saving face. It is all right. I am trying to save mine. What I meant was that whenever a majority of the Finance Committee wishes to do so it can take the matter up. We cannot complain. I shall not complain, because that is the right of the committee. On the other hand, I wish to make it clear that we reserve the right, when and if the matter comes up in another form, to resist it and oppose it by all proper means. I think the Senator will accord me that privilege.

Mr. BARKLEY. Of course. Let me say to the Senator from Texas that no member of the Finance Committee who voted to eliminate the amendment expected the Senator from Texas or other Senators from community-property States to change their attitude on the subject.

Mr. CONNALLY. With that statement, I am perfectly agreeable to the elimination of the amendment from the bill so that we may pass the bill and go home.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment on page 32, beginning in line 4.

The amendment was rejected.

Mr. McCARRAN subsequently said: I ask unanimous consent to have inserted in the RECORD, immediately following the statement of the chairman of the Committee on Finance with respect to the then-pending amendment on community-property income, a statement of the law on the subject.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

CONSTITUTIONAL AND LEGAL ASPECTS

1. The committee amendment on page 32 (sec. 119 of the bill) will be clearly held unconstitutional under the fourteenth amendment to the Constitution for the following reasons:

A. The laws of the State courts are final as to property rights, and these alone shall determine the ownership of property, rights attaching thereto, etc. (*Blair* v. *Commissioner* (300 U. S. 5); *Spindle* v. *Shreve* (111 U. S. 542); *Uterhart* v. *United States* (240 U. S. 598); *Poe* v. *Seaborn* (282 U. S. 101); *Freuler* v. *Helvering* (291 U. S. 35).)

(a) In *Blair* v. *Commissioner* the Supreme Court cites with approval the foregoing cases, and in referring to the question of ownership of property, beneficial interest therein, etc., states that: "The decision of the State court upon these questions is final."

B. The sixteenth amendment confers on the Federal Government the right to tax income without regard to geographic population.

(a) That income taxable has been consistently held to be a tangible increment, or the beneficial interest therein, ownership of the "thing," or ownership of the beneficial interest being the determining factor on who shall pay the tax.

C. The Supreme Court has held in a long line of cases that the wife's vested interest in and to one-half of the community increment to the marital relation in community-property States is property in the constitutional sense, and that she cannot be divested of that property without compensation by reason of the fourteenth amendment. (*Warburton* v. *White* (176 U. S. 484); *Arnett* v. *Read* (220 U. S. 311); *Buchser* v. *Buchser* (231 U. S. 157).)

(a) Moreover, in the so-called income-tax cases dealing with community property, decided in 1930, the Supreme Court clearly establishes that ownership of the income is the basis of assessment under the sixteenth amendment, and that such ownership is determined by local State laws. (*Poe* v. *Seaborn* (282 U. S. 101); *Goodell* v. *Koch* (282 U. S. 118); *Hopkins* v. *Bacon* (282 U. S. 122); *Bender* v. *Pfaff* (282 U S. 127).)

1. In all these cases the decision is rested on the ground that only one-half of the community income belongs to the husband, the other half being his wife's, and therefore the husband cannot be taxed on the income of the wife.

2. In that connection, consider the case of *Hoeper* v. *Tax Commission of Wisconsin* (284 U. S. 206). That case involved a Wisconsin statute providing that the husband or head of the family should add the income of his wife and each child under 18 years to that of his own before computing his income tax to the State of Wisconsin.

3. In holding this statute unconstitutional (1931) the Supreme Court, speaking through Mr. Justice Roberts, said:

"Since, then, in law and in fact, the wife's income is in the fullest degree her separate property and in no sense that of her husband, the question presented is whether the State has power by an income-tax law to measure his tax, not by his own income but, in part, by that of another."

"We have no doubt that, because of the fundamental conceptions which underlie our system, any attempt by a State to measure the tax on one person's property or income by reference to the property or income of another is contrary to due process of law as guaranteed by the fourteenth amendment. That which is not in fact the taxpayer's income cannot be made such by calling it income."

4. And, in *Heiner* v. *Donnan* (285 U. S. 312), dealing with a gift tax, the Supreme Court states that a course of action prohibited to the States by the fourteenth amendment is prohibited to the Federal Government by the fifth amendment.

The Hoeper case is emphatic and is in line with other cases cited that there is a constitutional barrier to the enactment of a Federal law which would join together and tax as a unit incomes which, under State law, are owned by the husband and by the wife.

D. But it is said by the committee, and expressed in the bill, that because the husband in community States controls or manages the community property, he is practically the owner thereof, and therefore subject to tax as the owner.

1. There is no doubt of ownership—one-half being in the wife ab initio.

2. Therefore, the committee is not content to declare management and control by the husband equivalent to ownership, but even more—it is asserted that for Federal income-tax purposes management and control by the husband shall be superior to ownership by the wife.

3. Yet, in *Warburton* v. *White*, the Supreme Court held that the management and control

in community States given by statute to the husband, is not a property right vested in the husband and can be taken from him without compensation notwithstanding the fourteenth amendment.

4. Thus the committee is seeking to base an income tax upon something which the Supreme Court has held is not property—and at the same time the committee proposes to disregard something which the Supreme Court has said is property, namely, the vested right of the wife in and to one-half of the community property.

E. In legal contemplation the vested right of the wife in and to one-half of the community property is as inviolate as the separate property of the wife in the so-called common-law non-community-property States.

(a) In non-community-property States the separate property of the wife is not now, and will not be taxed to the husband even though he have exclusive management and control over that property.

(b) Contrasted to this fact it is now contended by the committee, however, that because the husband in community States exercises control or management over the wife's one-half of the community property he should therefore be taxed on her property.

(c) It therefore develops that the committee wants to tax the husband in community States on income which belongs to his wife, by treating that income as if it were his—notwithstanding the fact that (1) he cannot dispose of it in fraud of his wife's property rights, even though he wants to; (2) he cannot spend it to improve his separate property if he wants to; (3) he cannot use it to pay his separate debts if he wants to; (4) he has no right or power to have it descend to his heirs; (5) if he is a bad manager or careless, he may lose the administration of it by court order; (6) he will automatically lose the administration of it upon divorce or death of his wife; (7) when he loses the administration of it he must deliver all such property to his wife's heirs; (8) and, in many community States, if it is willed to him by the wife, he takes it not as owner but by inheritance, and is therefore compelled to pay both a State inheritance tax and a Federal estate tax for the privilege of receiving it.

1. Where the husband may do none of these things in community States, he may do all of them in common-law States with respect to income acquired during the marital relation because he is by State law in those States the owner in fact of such property.

F. The effect of community property law in eight States adhering to the community system is to create an involuntary partnership. This partnership comes into being by operation of law upon the taking of the marital vows.

(a) In some 21 States, husband and wife are permitted to incorporate, or form a voluntary partnership, under which the wife as copartner is entitled to one-half of the earnings thereof and on which the husband, as other copartner, may not be taxed for income purposes.

(b) The proposed section 119 of the pending bill would therefore require the husband to pay an income tax on the earnings of his copartner, notwithstanding that such partnership is involuntary on his part; whereas in noncommunity States, even though husband and wife form a voluntary partnership with intent to defraud the Federal Government of income tax, the husband is not required to pay an income tax on the earnings of his copartner.

(c) Thus, it is seen that contrary to the expression of the committee that this provision will equalize taxes in all States of the Union, section 119 is but another attempt to discriminate against the community property States and if enacted, will place a burden on these 8 States that is not, and will not be also placed on the other 40 common-law States, so-called.

Mr. LA FOLLETTE subsequently said: Mr. President, with all this material going into the RECORD in opposition to the amendment, I ask unanimous consent to have inserted in the RECORD the portion of the majority committee report on the subject of community-property income, together with the tables. I think the existing situation with reference to community-property taxation constitutes one of the greatest injustices in the whole tax structure. It has existed for 27 years, and should be fought out and eliminated now. I had intended to speak at some length in favor of the committee's position on the taxation of community-property income; but I am refraining from doing so. I do not desire to violate the habit of the Senate of not debating matters after they are settled. However, I do desire to make at least a feeble gasp of expression of sentiment in favor of the position of the majority of the committee. So I ask unanimous consent that that portion of the majority report of the committee dealing with community property, including the tables, may be inserted in the RECORD following the discussion of that subject this afternoon.

There being no objection, the excerpt was ordered to be printed in the RECORD, as follows:

4. Community income: Ever since the advent of the income tax, the disparity in the taxation of income in the community-property States as compared with that in the non-community-property States has caused considerable concern. This situation has become more accentuated as the graduated surtax rates have been increased from time to time. Married persons in the community-property States under existing law are able to effect substantial tax savings as compared with married persons in the other States. Remedies for this inequitable situation have been frequently recommended to the Congress by the Treasury Department and by various other tax experts. With the substantial increases in the surtax rates contained in the bill, these inequities become more apparent and their termination more desirable.

Consequently, your committee bill provides a method whereby taxpayers in community-property States are placed on a parity with all other taxpayers and will pay the same amount of tax as do individuals similarly situated in the non-community-property States.

The following tables shows the Federal income-tax benefits which accrue to the earner of income in a community-property State as compared with the earner of income in a non-community-property State:

Tax on specified earned net incomes

Earned net incomes	Tax under Finance Committee bill	Tax if equally divided between husband and wife	Tax savings in community-property States
$3,500	$186	$186	
$4,000	249	234	$15
$5,000	375	330	45
$6,000	521	441	80
$7,000	687	567	120
$8,000	873	693	180
$9,000	1,079	819	260
$10,000	1,305	965	340
$12,000	1,817	1,297	520
$15,000	2,739	1,855	884
$18,000	3,819	2,493	1,326
$20,000	4,614	2,985	1,629
$25,000	6,864	4,355	2,509
$30,000	9,339	5,988	3,351
$50,000	20,439	14,448	5,991
$60,000	26,509	19,443	7,066
$80,000	39,294	30,153	9,141
$100,000	52,704	41,763	10,941
$150,000	87,189	72,973	14,216
$250,000	157,659	140,913	16,746
$500,000	345,084	316,383	28,701

Tax on specified earned net incomes—Con.

Earned net incomes	Tax under Finance Committee bill	Tax if equally divided between husband and wife	Tax savings in community-property States
$750,000	537,569	501,823	35,746
$1,000,000	732,564	691,308	41,246
$2,000,000	1,522,539	1,466,278	56,261
$5,000,000	3,922,524	3,846,248	76,276

It will be noted that an individual with a net income of $10,000 saves $340 Federal tax solely by reason of being a resident of a community-property State. An individual with an income of $5,000 saves $45. An individual with an income of $30,000 saves $3,351, and an individual with an income of $500,000 saves $28,701.

There are only a few persons in the community-property States who derive any Federal tax benefit out of the community-property system. This is shown by the following tables:

Returns filed in community-property States in 1938

	Total number of returns	Community-property returns	Percent of total
Arizona	20,447	713	3.49
California	523,696	22,859	4.36
Idaho	13,223	411	3.11
Louisiana	59,019	3,776	6.40
Nevada	8,969	339	3.78
New Mexico	13,690	608	4.44
Texas	205,254	13,375	6.52
Washington [1]	106,472	3,336	3.13
Total	950,770	45,417	4.78

[1] Includes Alaska.

Net income shown on returns filed in community-property States, 1938

State	Total net income, all returns	Net income, community-property returns	Percent of total
Arizona	$56,359,000	$6,832,000	12.12
California	1,569,974,000	274,429,000	17.48
Idaho	34,180,000	3,489,000	10.21
Louisiana	191,541,000	43,137,000	22.52
Nevada	27,989,000	3,712,000	13.26
New Mexico	39,211,000	5,472,000	10.50
Texas	683,096,000	162,973,000	23.86
Washington [1]	275,061,000	30,775,000	11.19
Total	2,877,411,000	530,819,000	18.45

[1] Includes Alaska.

Source: Statistics of Income 1938.

Comparison of number of community-property returns filed in 1938 by net-income classes to total number of returns filed in the 8 community-property States

Net-income class	Total number of returns filed	Community-property returns	Percent community-property returns to total returns
Under $5,000	858,882		0
$5,000 to $10,000	69,789	30,534	43.75
$10,000 to $15,000	10,907	7,384	67.70
$15,000 to $25,000	6,461	4,381	67.81
$25,000 to $50,000	3,487	2,331	66.85
$50,000 to $100,000	969	636	65.63
Over $100,000	275	151	54.91
Total	950,770	45,417	4.78

Source: Statistics of Income, 1938.

Not only does this tax saving benefit only a few individuals in the community-property States, but, as shown by the following table, less than 1 percent of the total returns filed in the country represent community-property returns.

Individual returns with net income (excluding fiduciary returns), 1938, by sex and family relationship; number of returns, net income, and percentages

Family relationship	Returns		Net income	
	Number	Percent of total	Amount (thousands of dollars)	Percent of total
Joint returns of husbands, wives, and dependent children, and returns of either husband or wife when no other return is filed	2,866,026	46.60	10,001,384	53.60
Separate returns of husbands and wives:				
Men	152,654	2.48	1,593,939	8.54
Women	153,143	2.49	693,027	3.71
Heads of families:				
Single men and married men not living with wives	395,073	6.42	1,040,372	5.58
Single women and married women not living with husbands	210,143	3.42	472,994	2.53
Not heads of families:				
Single men and married men not living with wives	1,418,385	23.06	2,611,197	13.99
Single women and married women not living with husbands	999,935	14.79	1,717,196	9.20
Community-property returns	45,417	.74	530,819	2.85
Total, individual returns with net income	6,150,776	100.00	18,660,929	100.00

Source: Statistics of Income, 1938.

Mr. ADAMS. Let me ask the Senator from Georgia if it is agreeable to him for me to submit at this time the amendment I proposed to offer yesterday.

Mr. GEORGE. Mr. President, it is agreeable to me to have the amendment considered at this time, I will say to the Senator from Colorado.

I should like to renew the statement I made, that the Senator's amendment is an administrative matter and, the committee having decided not to incorporate such matters in the bill, it is very doubtful whether the House or the House conferees would be disposed to consider an administrative measure or amendment about which there might not be any real dispute or controversy.

Mr. ADAMS. I will say to the Senator that of course I have such abounding confidence in the ability and persuasiveness of the chairman of the Finance Committee and the chairman of the conference committee that I feel quite sure that a meritorious amendment will be retained. But of course whatever hazard there is in that has to be taken.

Mr. GEORGE. I do not desire to be put in the attitude of rejecting or opposing all administrative amendments, if I consent as chairman of the committee to consider any of them; but the Senator has a right to offer the amendment, and I frankly say that the amendment is meritorious. I am advised and believe that the Treasury Department itself would desire to correct the particular condition covered by the amendment which arises by reason of Supreme Court decisions. But I had hoped that it might be passed over until we come to the consideration of an appropriate bill.

If the Senator desires to offer it, of course it may be offered at this time.

Mr. ADAMS. I submit the amendment, which I send to the desk and ask to have stated.

The PRESIDING OFFICER. The clerk will state the amendment.

The LEGISLATIVE CLERK. At the proper place in the bill it is proposed to insert the following:

SEC. —. Deductions from gross income.

Section 23 (a) (1) of the Internal Revenue Code is amended by inserting after the words "taxable year" the words "in caring for and conducting the business of the taxpayer."

Mr. ADAMS. Mr. President, a very brief word in explanation. As the law stands it provides for the deduction, in ascertaining net revenue, of—and I quote:

All the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business.

The Supreme Court, in at least two cases—one, the case of *United States* v. *Pyne* (61 Sup. Ct. 894), which is a very recent case; and in a prior case, *Higgins* v. *Commissioner* (312 U. S. 212)—held that such deductions were limited to expenses incurred in a somewhat narrow definition of doing business. They excluded from deduction any expenses incurred by an executor, for instance, in conserving the business of the estate, in the payment of attorneys' fees, and in protecting the estate. They excluded the expenses paid by a man whose property consisted of bonds and stocks and real estate. He may have employed people to look after his investments, to collect his dividends and coupons, to make out his income-tax returns; but the Court held that that was not the carrying on of a business.

Under the law as it stands a man of whom we heard yesterday, in a Western State, who was the proprietor of an establishment with a large supply of slot machines, could employ operators and collectors and could deduct the expenses of their employment, while, on the other hand, a widow whose funds consisted of bonds and securities, who was buying defense bonds, and who had to employ a bookkeeper, could not deduct the expenses incident to having her business looked after, because it was her personal business.

What I have sought to do by this amendment is to correct what I think is an obvious error, and to propose what the Senator from Georgia says is a meritorious suggestion, so that there may be deducted the bona fide, legitimate, and necessary expenses incurred by anyone in conserving his own business affairs, even though he be not engaged in a particular line of business. That is to say, if he has stocks, if he has bonds, and if he requires the employment of a clerk in an office he certainly is as much entitled to a deduction for such expenses as is the other man who is trafficking in stocks. So the amendment simply would add the right to deduct expenses necessary to the conserving of the individual business affairs of the taxpayer.

Mr. GEORGE. Mr. President, as I have already stated, I think the amendment is a proper amendment and is meritorious, and I am perfectly willing to accept it.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Colorado [Mr. ADAMS].

The amendment was agreed to.

Mr. LA FOLLETTE. Mr. President, I offer an amendment on page 109, in line 11. I propose to strike out the entire line, which reads as follows:

"(1) Motor vehicles—$5.

This provision was in the bill as it came from the House and was retained by the Finance Committee. It imposes a flat $5 tax on the user of every automobile.

In my opinion, this bill is already loaded down with regressive taxes which violate the sound principle of ability to pay; but this is the most regressive and most unjustified single item in the bill.

In the United States there are 32,000,000 motor vehicles. The annual revenue yield from this tax, assuming complete collection, will be $160,000,000.

As I have said, I regard this as one of the most regressive taxes ever proposed to be imposed upon a long-suffering people, because this proposal, Mr. President, has absolutely no relation to the ability of the taxpayer to carry the burden; it has absolutely no relation to the value of the article that is to be taxed nor the degree of use. A jalopy 5, 6, or 7 years old, worth $15 and driven only 500 miles a year, will pay exactly the same $5 tax as a long-nosed, specially constructed, Le Baron-bodied Cadillac. Mr. President, if Senators can defend that, let them take it home and discuss it with the taxpayers of their States. I venture there will be much to explain when the people of the country finally understand the job that has been done in this and other provisions of the bill.

Approximately $135,000,000 of the $160,000,000 revenue under this tax will come from the 27,000,000 passenger motor vehicles, and about $25,000,000 from the 5,000,000 motor trucks.

Let the farmer of Vermont or any other State get behind a double or triple hooked-up truck job while driving his jalopy to market; let him realize that the Congress of the United States has "soaked" him $5 for the privilege of running his Ford, or whatever other kind of car he uses to travel back and forth to the community where he does business; let him realize the truck pays only the same $5 tax; and then try to justify that when you get home, if you can.

Mr. TOBEY. Mr. President, will the Senator yield?

Mr. LA FOLLETTE. I yield.

Mr. TOBEY. I will tell the Senator what the farmer will say. He will say, "There ain't no justice."

Mr. LA FOLLETTE. He is going to say that over and over again as to almost every one of the taxes imposed by this bill; and especially will that be true when he finds out that most of the money taken out of his pocket will be used to help bloody Joe Stalin.

Mr. President, how does this tax on automobiles in the pending bill compare with State registration fees? The Federal Works Agency of the Public Works Administration has published the following statistics for the calendar year 1939:

The State governments for that year collected a total—mark this figure—of

$353,000,000 from registration fees, of which $236,000,000 came from registration fees on passenger vehicles and $117,000,000 from the registration fees on trucks. In effect, therefore, the proposed tax increases the registration fees on cars of all makes and models combined by an average of 57.2 percent, and on trucks by 21.3 percent. Of course, it should be noted that an average percentage increase of 57.2 percent on all cars does not indicate the real burden on the smaller and cheaper motor vehicles, for most of the States use a graduated scale for motor-vehicle registration. My own State imposes very high fees for automotive registration, but, at least, it recognizes the principle that the smaller car should not be required to pay as great a tax as the larger car. By the same token we have applied the same principle of taxation to the utilization of our highways for motortruck transportation. A similar policy prevails in most of the States; but the Federal Government now proposes a flat fee, a flat tax, which has no relationship to the size of the car or the value thereof, or to the size of the truck or the tonnage thereof. Actually, the increase on certain smaller vehicles paying the lowest registration fee and on certain special classifications provided in some States, such as farm vehicles, is more than a 100-percent increase. That applies to the States which recognize that the farmer has been in a desperate situation and have reduced the registration fee or relieved him of the necessity of paying a license fee on the truck used in hauling his products to market. This bill, of course, makes no such exception.

A detailed tabulation of the Public Roads Administration shows that the States of Arizona, California, Colorado, Georgia, Idaho, Kansas, Massachusetts, Montana, Nebraska, Nevada, North Dakota, Oregon, South Carolina, Utah, Washington, and Wyoming, will, in effect, have large percentage increases, due to this tax, because the registration fees in those States are comparatively low.

I believe, Mr. President, without any invidious comparison intended, that the proposed tax is comparable to a poll tax. It is probably more regressive than any other major tax in our entire tax structure, Federal, State, or local, because approximately 55 percent of all the automobiles are owned by persons earning less than $30 a week.

I base that statement on the published data of the American Automobile Association, and, insofar as I have been able to ascertain, there is no reason to question their approximate accuracy. Even under a sales tax, a general Federal sales tax, this group, that is, the group earning $30 a week or less, would pay only 37 percent of the total burden. That statement is based on one of the T. N. E. C. monographs on taxation No. 3, entitled "Who Pays the Taxes?" So, what we are really proposing to do, Mr. President, by this tax is to take from a group in the United States that earns $30 a week or less 55 percent of the $160,000,000 which is to be raised by this tax or 13 percent more than would be taken if a general sales tax were imposed to yield the same amount of revenue.

Let me not be misunderstood. I am not in favor of a sales tax. I have fought a sales tax in season and out, ever since I have been a Member of this body, and I intend to continue to do so as long as I am a Member of it but I am simply pointing out that the incidence of this tax will hit hardest those who are in the lower-income groups, and more so than a sales tax.

Now let me return for a moment to the yearbook of the Automobile Manufacturers' Association in relation to this tax and its impact upon the farmers of the country.

According to the yearbook of the Automobile Manufacturers' Association, 41.2 percent of all motor vehicles are registered in farms and villages under 2,500 in population. According to surveys made by this trade association, 65 percent of the mileage traveled by these automobile owners on the farms and in small villages is done for business purposes—a much larger percentage than is the case with the average urban driver. Generally, too, as we all know, because of the economic conditions which have prevailed upon the farms of the country ever since the last mad adventure in Europe, the farmer has the oldest and cheapest motor vehicle, on which many of the States allow special and lower registration fees, but which, under the proposal in this bill, would be taxed at the same rate as the super-motor-vehicle freight van.

Mr. President, it is an erroneous conception to impose this tax on the theory that the utilization of motor vehicles in the United States in the year 1941 is for the purpose of pleasure or luxurious transportation. The contrary is true. I assert without fear of successful contradiction that the motor vehicle has become a highly essential vehicle of transportation.

Take the case of the city of Washington, for example: What do you think would happen to the functioning of the Federal Government if the use of private automobiles for the purpose of transporting Government workers back and forth from their offices to their homes were completely stopped? The Government would be paralyzed. It would be scrambled even more than the defense program is scrambling it.

Apply that situation to any urban community in the United States. Take the case of the city of Cleveland, for example, which has a development along the lake shore. It is a long city. It has had excellent public transportation; but I venture the assertion that if the people who work in the offices and factories and stores and other economic enterprises in the city of Cleveland, Ohio, were debarred from the use of their automobiles, the entire economy of the city would be seriously impaired, because public transportation could not possibly expand to take care of the actual going to and from work of the people who work in that community; and that is true in every community in the United States.

So, Mr. President, this tax cannot be justified on the ground that it is designed to tax luxuries.

Furthermore, I ask Senators to pause and consider what is likely to happen if we acknowledge the principle that the Federal Government may impose a use tax. If we may put a $5 tax on the use of automobiles in the United States under Federal law, we may put a $25 tax on it. If we may put a $5 tax on a motor vehicle, we may put a $5 tax on a farmer's tractor; we may put a $5 tax on a housewife's sewing machine.

Mr. President, I do not wish to take any further time. I think it has been amply demonstrated in all the hearings before both the House Ways and Means Committee and the Senate Finance Committee that the users of automobiles, motor vehicles, and trucks, are probably the highest-taxed group in the United States, if we take into account all the taxes they are required to pay. But if it were desired to obtain more revenue from the same general source, then an increase in the excise tax on new automobiles would certainly be a much more justifiable tax than is this, although I wish it to be understood that I am not advocating such an increase.

Everyone knows that there is to be a drastic curtailment of the production of automobiles and other motor vehicles in this country. It is generally accepted that the curtailment will be somewhere around 50 percent; and if the slide-rule artists get busy here some Saturday night we may wake up to find out that it is to be 75 percent. But, in any case, it is perfectly obvious that the supply of new automobiles will be inadequate to meet the demand. This inevitably will result in an increase in price unless some way is found, which has not yet been enacted, to prevent it. Undoubtedly there will be enough consumers to meet this increased price, so that, whatever the output, it will be taken off the market, even with an increased excise tax. Therefore, with an increased excise tax, the Federal Government at least would be getting some benefit from the increased price which the consumer inevitably will have to pay for his automobile in any case.

Mr. President, I desire to sum up:

First of all, this is a regressive tax. It has absolutely nothing to do with ability to pay.

Secondly, this tax is not justified, because it falls upon a type of vehicle which is absolutely essential to the functioning of our economy.

Thirdly, it is not justified, because this particular group of taxpayers, namely, the users of motor vehicles in the United States, are already tremendously burdened.

The motor-vehicle users of the United States now pay out $353,000,000 a year in registration fees. This $5 use tax, will cost them $160,000,000 additional.

Mr. President, there is one other point I desire to make. Much has been said about the unfortunate diversion by the States of gas taxes which were primarily intended for the purpose of building and maintaining highways. There has been criticism that the Federal Government is now in the business of diverting part of the gas tax, originally applied for the purpose of making road appropriations, to general Treasury expenditure purposes. I call attention to the fact that here is another $160,000,000 which is to be taken out of the long-suffering users of motor vehicles in the United States and diverted for general purposes.

Finally, I wish to quote briefly from Mr. Sullivan, the Assistant Secretary of

the Treasury, on the cost of collecting this tax:

The proposed tax must be collected from 32,000,000 taxpayers located throughout every State and county in the country. This would require an additional personnel in the Bureau of Internal Revenue of at least 3,800 new employees.

I hasten to add they are all under civil service, because I do not desire to hurt the amendment.

The administrative cost is estimated to be $9,600,000, or approximately $6 per $100 of tax collected, which is more than five times the average cost of collecting other excise taxes.

Mr. President, I ask for the yeas and nays on my amendment.

The yeas and nays were ordered.

Mr. GEORGE. Mr. President, in the first place, the amendment does not apply to any automobiles owned by the Government or the States or the municipalities. No publicly owned automobile would be affected.

In the second place, reliable statistics indicate that about 18.8 percent of the passenger cars are owned by persons whose incomes are under $1,000; 51.8 percent, cumulative, are owned by those whose incomes are under $2,000; 74.3 percent are owned by those with incomes are under $3,000; 91.4 percent are owned by those whose incomes are under $5,000, and so on.

The House inserted this provision in the tax bill. The Senate Finance Committee approved it without amendment, and the House evidently inserted the provision because of a conflict between other taxes which were suggested. In other words, the House had the choice, and I say very frankly the Senate now has the choice of increasing the tax on gasoline if if does not want this tax, because the elimination of this tax will reduce the amount to be raised by the bill to less than $3,500,000,000; and I, as chairman of the Committee on Finance, would not want to do that, and I am satisfied that the committee as a committee would not desire to see that result.

The automobile users in my State went into this question with some care—I do not know whether a like inquiry has been made in other States—and they found on careful consideration that the owner of an average passenger car would pay more than $5 a year through a simple increase of one-half cent per gallon on gasoline. They therefore said, "We will support this tax." In my judgment, they reached a very sane conclusion, because, say what we please about it, the person who is able to own an automobile is able to pay some tax, and this tax is on the average less than would be required through an increase of half a cent per gallon on gasoline.

The House Committee on Ways and Means and the Finance Committee were of the opinion that it was not desirable to increase the Federal gasoline tax by a cent or by half a cent. One-half a cent increase on gasoline would produce about $128,000,000—nearly as much as the tax under discussion. The House also thought it was not wise or advisable to increase the manufacturer's sales tax on automobiles beyond 7 percent. Finally, it was recommended that it be increased to 15 percent, but the House fixed the tax on the manufacturer's selling price at only 7 percent, which is double the present rate. So the committee, having found a tax which may be objectionable when looked at alone, in considering the problem of attempting to raise an amount of money which will safeguard the integrity of the Treasury of the United States, is called upon to pass merely upon the tax from the standpoint of every criticism which can be aimed against it.

Of course, this would be a hard tax on some people, it is true, but so would it be hard to impose a tax of 15 percent on the manufacturer's selling price of every automobile in this country. Fifteen percent on a $1,000 car would be $150. The House thought it better to put a tax of $70 on a $1,000 car. The House thought it wise not to tax gasoline any further, not to increase the tax even by one-half cent, because very much is involved in the gasoline tax. State securities and bonds have been issued upon the amortized value of the gas tax by certain States. The gas tax alone in my State produces some $24,000,000 a year. It is essential to the State not to restrict further by additional taxes the use of things from which the State itself derives revenue.

Every man who is able to own a car is able to pay a tax, and the House fixed this tax at $5. It is true it is applicable to any kind of a car, but the bill contemplates that it must be a motor vehicle used on the highways of the country and expressly excepts from its operation publicly owned cars.

There is the problem. I can stand here and offer amendments proposing other taxes in the various categories and Senators can have the privilege of choosing between them. If they do not want this one, I will offer others until we see whether we are willing to meet the acid test of making good the enormous appropriations we have made in the name of national defense, proclaiming that we were glad to make such appropriations.

Mr. President, if the yeas and nays were not ordered on the amendment, I ask for the yeas and nays.

The PRESIDING OFFICER. The yeas and nays have been ordered.

Mr. GEORGE. Very well.

Mr. DANAHER. Mr. President, in the first place, I should like to associate myself of record with what I deem to be the excellent argument of the Senator from Wisconsin [Mr. LAFOLLETTE] applicable to the pending question. I am in agreement with him implicitly. But there is a further question, if I may take the time of the Senate for a few moments to point out what we are asked to do. Imposing a use tax is invading a field which as a matter of policy is taking us back to a program which was rejected in this country when Jefferson became President. The name of Jefferson may not have the significance in these days that it once had, when many of those who went to the polls every 4 years thought they were still voting for him, but the fact remains that between 1794 and the time of Jefferson's accession to the Presidency we had this kind of a tax, but it did not apply then to farm vehicles, it applied only to carriages. When Jefferson became President the use tax on carriages was repealed. There was no similar tax until 1815, when in an effort to meet the burden of the cost of the War of 1812, use taxes were again imposed, only to be repealed in 1817.

Mr. President, here is where the vice arises, now, as then, for with the constant and ever increasing encroachment of the Federal Government into the field of taxation open to the States, in a search for revenue, a tax was placed not only on the use of carriages but on silver service, and taxes were placed on other items of personal property of individuals within the States; in other words, it was claimed that there was a use of various objects of refinement and culture and civilization to which a tax would adhere, and that the Federal Government had the right to pursue within the State and to the individual the source of that tax, and to take from the people a tax based on use and proportionate, it was said, to their ability to pay on the items which they were able to own, and hence to use.

Mr. President, the Senator from Wisconsin has very ably observed that if we can put a tax of $5 on the use of an automobile this year, we can make it $20 next year; we can make it $50 or $100 thereafter. You can put such a tax on the use of every single object of furniture, if you please, or every type of equipment, within the home, or elsewhere.

The question involved here is not simply a matter of getting $160,000,000. The question is one of policy, whether the Congress is to pursue objects of personal property within the States, items of personal property, which are already on the rate lists of the States and subject to tax there.

Mr. President, just so soon as we embark upon that course as a matter of policy, for the first time in 124 years, just so surely will we gradually decrease the sources of the revenue open to the States. In turn this will cause a greater dependence by the States upon the Central Government, and cause the States for their part to look to the Central Government to maintain their services, the more surely because the Federal Government will be said to possess this broader tax base, this broader taxing power as a source for the maintenance of State services.

Mr. President, if this principle shall be applied it will result in gradually extending the tax to the use of personal objects other than automobiles. In principle, as Federal taxing power increases, the tendency will be to reduce the States to the status of mere counties, if you choose, in the Central Government, which will become all-powerful by virtue of its possession of the power to apply this principle. Indeed, it can be carried to the length of destroying the use of the object taxed.

Mr. President, this tax is not merely a tax unequal in application, it is not merely a tax which, it can be argued, violates the first article of the Constitution. It is not merely a tax which applies unevenly to the poor as distinguished from the rich and the respective ability to pay. There is a deeper question of principle involved here. It is that to which I refer, and it is whether Congress is now going to stand for the adoption of a policy which will invade the State lines, and attach a tax upon the use of personal

property within the State. That is the question which is involved here, with all the consequences attendant upon that result.

I respectfully suggest that if it had to be an excise tax on gasoline, or any other item properly subject to such an excise tax, it would be far better than to seek merely a source of revenue, as is said of this particular item. What I say applies alike to a tax on the use of an amusement machine. It applies alike to a tax on the use of the motorboat.

Mr. President, do you not see that the moment we approve an attempt to attach a tax upon the use of articles of personal property there is no limit whatever to the lengths to which the Federal Government can go to tax the last object of personal property of individuals within the States?

I respectfully commend to the attention of the Senate the seriousness of the question of policy and principle thus involved. I believe that the argument and the offer of amendment made by the Senator from Wisconsin is just and sound, and I am glad to associate myself with what he has said. For the reasons advanced by him, as well as those I have mentioned and upon which I will not further elaborate, I believe the amendment should be adopted and that use taxes should be stricken from the bill.

Mr. LA FOLLETTE. Mr. President, I wish to say one word in conclusion. The Senator from Georgia [Mr. GEORGE] has stated that the question involved, if the amendment shall prevail, is the problem of finding some other tax. So far as I am concerned, there is not any tax in the bill, or one that has been proposed, that is worse in principle or application than the one now under consideration.

Furthermore, I should like to point out that the Senate, by more than a 2-to-1 vote, on yesterday refused to raise the rate on estates, which would have produced $202,000,000, considerably more than the provision now in question will produce.

I also wish to point out that, over my protest, a majority of the Finance Committee agreed to abandon the fight on taxation of community-property income. When that item was eliminated practically by unanimous consent—I think I was the only one who voted against it on the viva voce vote, or, if not the only one, at least there were only a few who voted against it—about $50,000,000 in revenue was cut out of the bill, and no one rose to say that we had to consider what kind of taxation should be imposed in order to take its place.

Mr. President, I think my record will show that through all the years I have been a Member of this body, and a member of the Finance Committee, I have fought as hard as anyone to obtain increased revenue for the Government, but there is a point beyond which the Senate and the House and the Treasury Department should not go in imposing taxes which violate all sound principles of taxation and all principles of equity and of justice. We certainly have not reached that point.

We have turned down the Treasury's recommendations on excess profits. We have turned down the Treasury's recommendation on the taxation of estates. We have turned down the Treasury's recommendations with respect to depletion allowances for taxation purposes. We have now turned down the Treasury's recommendation for taxation on community property. The House of Representatives turned down the Treasury's recommendation on joint returns.

If we are going to turn down all the proposals which are based on sound principles of taxation, which are based on the principle of ability to pay, if we are going to close our eyes to the justice of the matter, of course, ultimately we will be driven to the imposition of such taxes as these. But let me say to my colleagues in the Senate, in all sincerity and with no design to reflect upon anyone, that when the people of this country find out what kind of a tax bill the Congress has imposed upon them, Members of Congress are going to hear from them, and the sooner the better, so far as the maintenance of the Republic is concerned.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Wisconsin [Mr. LA FOLLETTE] on page 105, to strike out line 11. On this question the yeas and nays have been ordered. The clerk will call the roll.

The Chief Clerk proceeded to call the roll.

Mr. DAVIS (when his name was called). I have a general pair with the junior Senator from Kentucky [Mr. CHANDLER]. I do not know how he would vote. I transfer my pair to the senior Senator from Ohio [Mr. TAFT], who I am advised would vote as I shall vote. Therefore I am at liberty to vote. I vote "yea."

Mr. McNARY (when his name was called). I have a pair with the senior Senator from Tennessee [Mr. MCKELLAR]. I transfer that pair to the junior Senator from South Dakota [Mr. GURNEY], and will vote. I vote "yea."

The roll call was concluded.

Mr. HOLMAN. I have a general pair with the junior Senator from Tennessee [Mr. STEWART]. I understand that if he were present and voting he would vote "nay." If I were at liberty to vote I should vote "yea."

Mr. THOMAS of Utah (after having voted in the negative). I have a pair with the senior Senator from New Hampshire [Mr. BRIDGES]. I transfer that pair to the senior Senator from Oklahoma [Mr. THOMAS] and allow my vote to stand.

Mr. HILL. I announce that the Senator from Washington [Mr. BONE], the Senator from Virginia [Mr. GLASS], the Senator from North Carolina [Mr. REYNOLDS], and the Senator from New York [Mr. WAGNER] are absent from the Senate because of illness.

The Senator from Kentucky [Mr. CHANDLER] is absent on a defense-inspection tour.

The Senator from Mississippi [Mr. BILBO], the Senators from Missouri [Mr. CLARK and Mr. TRUMAN], the Senator from Georgia [Mr. RUSSELL], and the Senator from New Jersey [Mr. SMATHERS] are detained on business in various Government departments.

The Senator from New Mexico [Mr. CHAVEZ], the Senators from Tennessee [Mr. MCKELLAR and Mr. STEWART], the Senator from New York [Mr. MEAD], the Senator from Utah [Mr. MURDOCK], the Senator from Florida [Mr. PEPPER], the Senator from Oklahoma [Mr. THOMAS], and the Senator from Montana [Mr. WHEELER] are necessarily absent.

Mr. AUSTIN. I announce the following general pairs:

The Senator from Minnesota [Mr. SHIPSTEAD] with the Senator from Virginia [Mr. GLASS];

The Senator from Minnesota [Mr. BALL] with the Senator from Missouri [Mr. TRUMAN];

The Senator from Indiana [Mr. WILLIS] with the Senator from New Mexico [Mr. CHAVEZ]; and

The Senator from Kansas [Mr. REED] with the Senator from New Jersey [Mr. SMATHERS].

The result was announced—yeas 32, nays, 35, as follows:

YEAS—32

Aiken	Downey	Nye
Brewster	Eastland	O'Daniel
Brooks	Gillette	O'Mahoney
Bulow	Kilgore	Peace
Bunker	La Follette	Rosier
Burton	Langer	Schwartz
Butler	Lodge	Thomas, Idaho
Capper	McCarran	Tobey
Clark, Idaho	McNary	Wallgren
Danaher	Maloney	Wiley
Davis	Murray	

NAYS—35

Adams	George	McFarland
Andrews	Gerry	Overton
Austin	Green	Radcliffe
Bailey	Guffey	Smith
Bankhead	Hatch	Spencer
Barbour	Hayden	Thomas, Utah
Barkley	Herring	Tunnell
Brown	Hill	Tydings
Byrd	Hughes	Vandenberg
Caraway	Johnson, Colo.	Van Nuys
Connally	Lee	Walsh
Ellender	Lucas	

NOT VOTING—29

Ball	Johnson, Calif.	Smathers
Bilbo	McKellar	Stewart
Bone	Mead	Taft
Bridges	Murdock	Thomas, Okla.
Chandler	Norris	Truman
Chavez	Pepper	Wagner
Clark, Mo.	Reed	Wheeler
Glass	Reynolds	White
Gurney	Russell	Willis
Holman	Shipstead	

So Mr. LA FOLLETTE's amendment was rejected.

Mr. BUTLER. Mr. President, on behalf of the Senator from Alabama [Mr. BANKHEAD], the Senator from Mississippi [Mr. EASTLAND], and myself, I offer the amendment which I send to the desk and ask to have stated.

The PRESIDING OFFICER. The amendment offered by the Senator from Nebraska will be stated.

The CHIEF CLERK. At the proper place in the bill it is proposed to insert the following:

TITLE VIII

FATS, OILS, AND GREASES

SECTION 1. Paragraph 1 of the Tariff Act of 1930 is amended by inserting at the end thereof the following: "Fatty acids and salts derived from one or more of the oils named in paragraph 53 or 54, from inedible animal oils, fats, and greases, not specially provided for, from fish and marine animal oils, not specially provided for; all the foregoing, 6 cents per pound."

SEC. 2. Paragraph 52 of such act is amended to read as follows:

"PAR. 52. Oils, animal and fish: Sod, 5 cents per gallon; herring and menhaden, 3 cents per gallon; whale and seal, 6 cents per gallon; sperm, crude, 10 cents per gallon; sperm, refined or otherwise processed, 14 cents per

gallon; spermaceti wax, 6 cents per pound; shark oil and shark-liver oil, including oil produced from sharks known as dogfish, 10 percent ad valorem; edible animal oils, fats, and greases, 3 cents per pound; wool grease containing more than 2 percent of free fatty acids, one-half cent per pound; containing 2 percent or less of free fatty acids and not suitable for medicinal use, 1 cent per pound; suitable for medicinal use, including adeps lanae, hydrous or anhydrous, 3 cents per pound; all other animal and fish oils, fats, and greases not specially provided for, 3 cents per pound."

SEC. 3. Paragraph 53 (relating to duty on seed oils) of such act is amended by striking out "rapeseed, 6 cents per gallon" and inserting in lieu thereof "rapeseed, 1½ cents per pound; kapok seed, 1½ cents per pound; perilla seed, 1½ cents per pound; sunflower seed, 1½ cents per pound; corn oil, 6 cents per pound."

SEC. 4. Paragraph 54 of such act is amended to read as follows:

"PAR 54. Coconut oil, 2 cents per pound; cottonseed oil, 6 cents per pound; babassu oil, 6 cents per pound; peanut oil, 6 cents per pound; palm oil, 6 cents per pound; palm-kernel oil, 3 cents per pound; inedible sesame oil, 1½ cents per pound; all other sesame oil, 6 cents per pound; soybean oil, 6 cents per pound."

SEC. 5. Paragraph 57 (relating to mixtures of oils) of such act is amended by striking out "25 percent ad valorem, but not less than the rate applicable to the component material subject to the highest rate of duty" and inserting in lieu thereof "6 cents per pound."

SEC. 6. Paragraph 762 of such act (relating to duty on oil-bearing seeds and nuts) is amended by striking out "sunflower seed, 2 cents per pound" and inserting in lieu thereof "sunflower seed, 1.725 cents per pound"; by striking out "soybeans, 2 cents per pound" and inserting in lieu thereof "soybeans, 1.098 cents per pound"; and by striking out "cottonseed, one-third of 1 cent per pound" and inserting in lieu thereof "cottonseed, 1.155 cents per pound; babassu nuts, 3.891 cents per pound; copra, 3.891 cents per pound; hempseed, 1.668 cents per pound; kapok seed, 1.326 cents per pound; palm nuts, 2.865 cents per pound; palm-nut kernels, 2.865 cents per pound; rapeseed, 2.295 cents per pound; perilla seed, 2.409 cents per pound; sesame seed, 2.865 cents per pound."

SEC. 7. Paragraph 1732 of such act (relating to free importation of inedible oils) is amended by striking out "palm-kernel, rapeseed, sunflower, and sesame."

SEC. 8. Paragraph 1727 of such act is amended to read as follows:

"PAR. 1727. Tung nuts; rubber seed; seeds and nuts, not specially provided for, when the oils derived therefrom are free of duty."

SEC. 9. Paragraph 703 of such act is amended by striking out "lard compounds and lard substitutes, 5 cents per pound" and inserting in lieu thereof the following: "lard compounds and lard substitutes, 6 cents per pound."

SEC. 10. Paragraph 701 of such act is amended by striking out "tallow, one-half of 1 cent per pound" and inserting in lieu thereof "tallow, 3 cents per pound."

SEC. 11. (a) Paragraph 730 of such act is amended by inserting at the end thereof the following new sentence: "Fish scrap, fish meal, marine animal scrap, marine animal meal, three-tenths of 1 cent per pound."

(b) Paragraph 1780 of such act is amended by striking out "fish meal."

SEC. 12. Section 2491 (d) of the Internal Revenue Code (relating to import tax on oil-bearing seeds) shall not apply to any article imported or withdrawn from bond for consumption or use after the date of the enactment of this act.

SEC. 13. (a) Section 2470 (a) (1) of the Internal Revenue Code (relating to processing tax on oils) is amended by inserting at the end thereof the following new sentence: "The rate provided in this paragraph shall be 6 cents per pound if the article is produced in or from materials the growth or production of the Philippine Islands or any other possession of the United States."

(b) The amendment made by subsection (a) shall apply only to articles brought into the United States from such possessions after the date of enactment of this act.

TITLE IX

JUTE AND JUTE PRODUCTS

SEC. 21. Paragraph 1001 of the Tariff Act of 1930 is amended by inserting "(a)" before "Flax" and by inserting at the end thereof the following new subparagraph:

"(b) Jute, jute butts, waste bagging of jute, waste sugar sack cloth of jute, and jute waste not specially provided for, all the foregoing, 4 cents per pound."

SEC. 22. Paragraph 1617 of such act is amended to read as follows:

"PAR. 1617. Waste bagging, not of jute, and waste sugar sack cloth, not of jute."

SEC. 23. Paragraph 1684 of such act is amended by striking out "jute, jute butts."

SEC. 24. Schedule 10 of such act is amended by inserting at the end thereof the following new paragraph:

"PAR. 1024. All the articles enumerated or described in this schedule (except in paragraph 1001 (b)) shall be subject to an additional duty of 5 cents per pound on the jute contained therein."

TITLE X

STARCHES

SEC. 31. (a) Paragraph 83 of such act is amended by inserting after "Starch:" the following: "Sago, crude, and sago flour, 2½ cents per pound; tapicoa, tapicoa flour, and cassava, 2½ cents per pound."

(b) Paragraphs 1753 and 1781 (relating to free importation of sago, tapioca, and cassava) of such act are repealed.

SEC. 32. Paragraph 84 of such act is amended by inserting at the end thereof the following new sentence: "Dextrines made from sago or tapioca, 3½ cents per pound."

TITLE XI

GENERAL PROVISIONS

SEC. 41. The amendments made by this act shall be effective notwithstanding the terms of any foreign trade agreement heretofore or hereafter entered into under section 350 of the Tariff Act of 1930.

SEC. 42. The amendments to the Tariff Act of 1930 made by this act shall apply to articles which, after the day following the date of enactment of this act, are imported into the United States or withdrawn from bond for consumption or use.

Mr. BUTLER. Mr. President, by reason of the action of the Finance Committee, as announced by the chairman of the committee, there was removed from the bill this afternoon one item which it is estimated would produce approximately $50,000,000 or $60,000,000 of revenue. The amendment which I have offered would restore approximately that amount to the bill.

The amendment submitted by me for myself, the Senator from Alabama [Mr. BANKHEAD], and the Senator from Mississippi [Mr. EASTLAND] is an attempt to provide or increase protection of certain branches of American agriculture against competitive imports from tropical countries, to stimulate production of dependable supplies of certain foods and raw materials within our own boundaries, and to raise revenue to meet the increased costs of our defense program. By the terms of this amendment duties are levied against four main groups of commodities, namely, oils and fats, jute and jute products, tropical starches, and fish and marine-animal scrap and meal. In addition, the amendment attempts to systematize the rather complicated and patchwork set of protective devices against foreign fats and oils by bringing existing duties and excises together into a somewhat more orderly arrangement.

The fats-and-oils section of this amendment may seem complicated, although the net result of the changes proposed is to bring about a simplification. Legislation embodying these provisions has been under consideration in the House since April, and the rates have been rather carefully worked out and checked by tariff experts. Briefly, this title would bring the combined duty, plus excise, plus processing tax, on most competitive fats and oils to a uniform level of 6 cents a pound. Levies on imported oil seeds would be scaled in proportion. To bring about this uniform arrangement it is necessary to raise some duties and lower others, although the general level of duties is, of course, raised.

It is expected that the duties prescribed in this amendment would result in exclusion of substantial quantities of competitive oils and oilseeds, though not necessarily all competitive oil imports would be kept out. If a foreign oil were distinctly superior for any purpose to any domestic oil which could be produced, it could be imported over the 6-cent duty, which is hardly enough to cover the difference between the cost of production and the standard of living in this country and those in the tropical foreign countries in which such oils are produced. Such oils as might come in would thus help to defray the increased costs of our defense program.

The result of exclusion of these oils would be to improve the domestic market and domestic prices for butter, lard, cottonseed, soybean, peanut, and other oils. It is expected that better prices for domestic oils would stimulate production of some of them on idle acres in the United States, thus relieving the pressure of surpluses of such crops as wheat and corn.

The duties on jute are expected to result in displacement of jute by cotton in many uses and in the collection of considerable revenue for the National Treasury on the jute and jute manufactures for which cotton or other domestic fibers are not suitable substitutes and which therefore continue to come in.

The duties on tropical starches are expected to result in increased utilization of domestic raw materials, such as corn and sweetpotatoes, for starch, instead of the tropical products at present imported. Duties on fish and marine-animal scrap and meal would also be levied by this amendment, since these products are competitive with our domestic tankage and other domestic feeds.

Mr. President, I am sure that many Senators, as well as others interested in the progress of the defense program and in the national economic welfare, must have come to realize during the last few months the perilous position in which we have placed the national welfare by continuing to depend on foreign sources for so many of the raw materials and foods vital to our national welfare. We have discovered in the past few months just how vulnerable is our national economy as foreign sources of supply are cut off and as shortages begin to appear in one commodity after another. In many

cases ample supplies of some commodity may be piled up on the docks at some distant foreign port, but the ships simply are not available to carry the goods here, and there is no probability that the ships will be available, either soon or for several years to come, if the wars continue. In determining which products shall be brought here in the few ships available, the Maritime Commission must naturally put first things first, and shipping which might be used to bring starch, for example, or tropical oilseeds or jute, must be diverted to the carriage of those commodities of which such a severe shortage has already occurred that industry is rationed, and of which it appears there may not be enough even for direct defense needs, to say nothing of indirect defense needs and civilian consumption. Rubber, tin, copper, and many other commodities might be cited as products of which we are sorely in need and for which we simply cannot get the shipping to supply ourselves. In fact, Members of this body know that the Commission has been severely criticized—and I believe justly so—for permitting ships to continue to carry even restricted quantities of agricultural raw materials which we, ourselves, could produce; but as time goes on and as the shipping shortage grows more and more acute, while our needs for foreign metals and the like expand, there will be no possibility of bringing in even restricted quantities of agricultural raw materials which we can possibly do without or which we, ourselves, can produce.

It is therefore essential that we begin to prepare for the future. We shall have to expand production of domestic oils and fats, fibers, and starches. We have no alternative. But the production of agricultural commodities cannot be expanded overnight. Before lard production can be increased pigs must be raised. It takes time to introduce crops like peanuts and soybeans into new areas. In some cases new processing plants may have to be built, or old ones reorganized or provided with new machinery.

For the same reason it is impossible to cut down productive capacity suddenly, particularly in the case of agricultural commodities. Once the farmer has increased his swine numbers, or has expanded his acreage of some oil or starch crop it is equally difficult for him suddenly to restrict again if the threat of competitive imports returns at the conclusion of the war. The necessity for protection against these imports is perhaps temporarily less, but we cannot expect the farmer to grow the larger crops to meet our needs unless we give him some kind of assurance that after the war is over the greater quantities will still find a market. That is what this amendment proposes to do. Many Senators remember what happened after the last war, when farmers who had plowed up new acreage to meet war demands were suddenly confronted with the fact that their war markets had disappeared and that they had no place to dispose of their surpluses. Prices dropped disastrously, bringing a flood of bankruptcies in their train; and the agricultural problem, as we have lived with it ever since, was first created on a large scale. We do not want that to happen again.

This amendment is not a sectional bill. It is not designed to help only the farmer in Nebraska or in the Middle West. It is intended to improve the prices and markets of crops in every section of the country, and to help farmers, who have had to curtail production, to find alternative crops in every part of the Nation.

I shall not burden this debate with a great many figures. I have prepared statistical tables covering, I believe, every important phase of this question, which I ask to have inserted in the RECORD at this point.

The PRESIDING OFFICER (Mr. MCFARLAND in the chair). Without objection, it is so ordered.

The tables referred to are as follows:

Fat, oils, and oil-bearing materials: United States tariff rates and excise taxes adjusted in accordance with this amendment

[In cents per pound unless otherwise indicated]

Material	Tariff paragraph	Rate of duty	Excise tax	Total, duty and tax under amendment
Hempseed oil	53	1½	4½	6.
Rapeseed oil, inedible: For use in rubber substitutes and lubricating oil	1732	Free	Free	Free.
Other, inedible	1732	do	4½	6.
Other	53	6 cents per gallon	4½	6.
Kapok oil	53	20 percent ad valorem	4½	6.
Perilla oil	1732	Free	4½	4½.
Sunflower oil	53	20 percent ad valorem	4½	6.
Do	1732	Free	4½	6.
Corn oil	53	20 percent ad valorem	Free	6.
Coconut oil:				
Product of Philippines; or other United States possession	54	Free (quota)	3	6.
Other	54	2	5	7.
Cottonseed oil	54	3	Free	6.
Babassu oil	1,732	Free, T. A	do	6.
Peanut oil	54	4	do	6.
Palm oil:				
For tinplate or terne plate	1,732	Free, T. A	do	Free.
Other	1,732	do	3	9.
Palm-kernel oil	54	½	3	6.
Do	1,732	Free, T. A	3	6.
Sesame oil	54	3	Free	6.
Do	1,732	Free	4½	6.
Soybean oil	54	3½, but not less than 45 percent ad valorem.	Free	6, but not less than 45 percent ad valorem.
Combinations and mixtures	57	25 percent but not less than rate applicable to the component material subject to the highest rate of duty.	Various [1]	6 but not less than 45 percent ad valorem.
Fatty acids	1	25 percent ad valorem	Various [2]	6.
Do	1,558	20 percent ad valorem	do	6.
Sunflower seed	762	1,725	Free	1,725.
Soybeans	762	1,098	do	1,098.
Cottonseed	762	1,155	do	1,155.
Babassu nuts	1727	3,891	Free, T. A	3,891.
Copra	1727	3,891	Free	3,891.
Hempseed	1727	1,668	do	1,668.
Kapok seed	1727	1,326	do	1,326.
Palm nuts	1727	[3]	Free, T. A	[3].
Palm nut kernels	1727	2,865	do	2,865.
Rapeseed	1727	2,295	Free	2,295.
Perilla seed	1727	2,409	do	2,409.
Sesame seed	1727	2,865	do	2,865.
Lard compounds	703	6	Various [2]	Various. [2]

[1] These adjusted rates are based:

(*a*) On a total tax of 4½ cents per pound applying to perilla oil, 7 cents per pound to non-Philippine coconut oil, and 6 cents per pound to each of the other oils shown in the table, except rapeseed oil used in the manufacture of rubber substitutes and lubricating oil, and palm oil used in the manufacture of tin and terne plate, the tariff and excise tax status of the exceptions remaining as now provided by law;

(*b*) On the substitution of tariff duties for excise taxes now imposed on the processing of palm and palm-kernel oils; and

(*c*) On calculations for rates on oil-bearing materials on the bases of their

a. Oil content;
b. The proposed tax on the corresponding oil;
c. Oil-cake content;
d. The present tax (0.3 cent per pound) on oil cake; and
e. The elimination of all excise taxes on the oil bearing materials listed in the table.

[2] Rate would depend on component oils.

[3] Rates not calculable on the basis of crushing experience in the United States inasmuch as no palm nuts have been imported for this purpose.

"T. A." indicates that the tariff or excise treatment shown is provided for in trade agreements.

Fats, oils, and oil-bearing materials: United States tariff rates and excise taxes adjusted in accordance with this amendment

Fats or oils, or combinations or manufactures thereof, and oil-bearing materials	Duty [1]	Total tax on imports into the United States (per pound)
Animal fats and oils:		
Tallow	½ cent per pound	6 cents.
Inedible animal oils, fats, greases, n. s. p. f.	3 cents per pound	Do.
Fatty acids or salts of above	do	Do.
Butter	14 cents per pound	14 cents.
Lard	5 cents per pound	6 cents.
Oleo oil and oleo stearin	1 cent per pound	3 cents.
Wool grease:		
Containing over 2 percent free fatty acids	½ cent per pound, T. A.	Do.
Containing 2 percent or less free fatty acids	1 cent per pound, T. A.	Do.
For medicinal use	2 cents per pound, T. A.	Do.
Edible animal oils, fats, or greases, n. s. p. f.	3 cents per pound	Do.
Marine animal and fish oils:		
Sod oil	3 cents per gallon, T. A.	Do.
Herring and menhaden oils	3 cents per gallon	6 cents.
Whale (other than sperm) and seal oils	do	Do.
Shark oil and shark-liver oil, including oil produced from sharks known as dogfish, n. s. p. f.	10 percent ad valorem, T. A.	3 cents.
Fish and marine animal oils, n. s. p. f.	3 cents per pound	6 cents.
Fatty acids or salts of above	do	Do.
Cod-liver and cod-oil	Free	None.
Sperm oil:		
Crude	2½ cents per gallon, T. A.	2½ percent.
Refined	7 cents per gallon, T. A.	1 cent.

[1] Source: Oil, Paint, and Drug Reporter.

"T. A." indicates that the tariff or excise treatment shown is provided for in trade agreements.

Imports of specified fats, oils, and oil-bearing materials (in terms of crude oil), United States, 1937–40

[In thousands of pounds]

Item	1937	1938	1939	1940 [1]
Animal fats and oils:				
Butter	11,111	1,624	1,107	1,385
Grease, wool	4,694	1,786	4,178	2,877
Lard	247	2	1	(2)
Oleo oil	2			
Stearine, animal, edible	3,745	400	(2)	(2)
Tallow, edible	10,652	75		(2)
Tallow, inedible	3,851	1,229	1,496	[3] 1,464
Fish-liver oil	66,641	62,175	66,242	19,461
Fish oil	1,243	528	960	718
Marine mammal oil	54,864	22,072	20,289	22,258
Total, animal	157,050	89,891	94,273	48,163
Vegetable oils:				
Babassu oil	330	(2)	650	891
Cashew-shell oil	1,742	1,585	1,947	4,772
Coconut oil	337,376	363,941	336,796	370,683
Corn oil	32,926	22,242	13,965	426
Cottonseed oil [4]	207,049	83,331	31,617	12,936
Linseed oil	462	123	49	11
Oiticica oil	3,631	5,301	18,867	15,537
Olive oil, edible	43,343	71,086	62,866	50,080
Olive-oil foots	22,101	22,356	28,180	24,480
Olive oil, inedible	4,870	5,444	11,304	5,136
Palm-kernel oil	139,356	2,569	2,236	
Palm oil	411,112	271,325	288,603	225,037
Peanut oil	[5] 53,255	[5] 15,553	3,779	3,119
Perilla oil	43,591	31,821	51,284	11,347
Rape oil	5,854	5,960	9,321	12,919
Sesame oil	32,020	7,040	3,520	63
Soybean oil	22,259	[5] 2,856	4,126	4,849
Sunflower oil	479	77	194	(2)
Teaseed oil	27,492	11,855	5,384	4,315
Tung oil	174,895	107,456	78,718	97,049
Vegetable tallow	8,098	274	2,564	283
Other [6]	800	3	1	50
Total, vegetable	1,584,971	1,032,198	955,971	843,983
Total, all fats and oils	1,742,021	1,122,089	1,050,244	892,146
Raw materials (oil-equivalent):				
Babassu nuts and kernels (63 percent)	34,519	32,021	71,717	61,912
Castor beans (42 percent)	61,060	47,910	68,297	99,871
Copra (63 percent)	338,782	323,201	270,934	387,682
Flaxseed (33 percent)	518,027	283,919	296,200	218,534
Palm nuts and kernels (45 percent)	39,731	10,953	3,713	13,171
Perilla seed (37 percent)	74	1	2,406	(2)
Sesame seed (45 percent)	4,979	3,067	4,525	6,569
Total, raw materials	997,772	701,072	717,792	787,739
Grand total	2,739,793	1,823,161	1,768,036	1,679,885

[1] Preliminary.
[2] Less than 500 pounds.
[3] Includes 96,000 pounds of oils, fats, and greases, n. e. s.
[4] Crude plus refined converted to crude basis, dividing by 0.93.
[5] Excludes free for export.
[6] Includes castor oil, hempseed oil, and kapok oil.

Compiled from Foreign Commerce and Navigation of the United States and Monthly Summary of Foreign Commerce of the United States.

Mr. BUTLER. I can summarize this whole proposition by saying that my amendment, if adopted, will improve markets and prices of all the domestic oils and fats, of cotton and other fibers, of sweetpotatoes and corn, and of high-protein feeds; that it will encourage production of alternative crops to take the place of those which relied on foreign markets that have now been lost, and that it will give this Nation a dependable supply of raw materials and foods which are now scarce because of our past reliance on undependable foreign suppliers.

Mr. President, in closing my remarks, I wish to say that, as a permanent policy, our Nation must sooner or later—and the sooner the better—adopt a policy of production rather than one of restriction, and we must protect the American market for the American producer. At the conclusion of any remarks which other Senators may care to make, I intend to ask for the yeas and nays on the amendment.

Mr. BANKHEAD. Mr. President, I wish to address myself briefly to the amendment which has just been presented by the junior Senator from Nebraska [Mr. BUTLER]. I was invited by him and the junior Senator from Mississippi [Mr. EASTLAND] to participate with them in offering this amendment. The amendment is similar to a bill that was prepared by Representative FULMER, chairman of the House Committee on Agriculture, and now pending in that body.

I regard this as one of the most important measures in the interest of American agriculture that have been presented at the present session of the Congress. I have no illusion, Mr. President, about the final action on this amendment; I recognize the difficulties, looking at it from the standpoint of usual legislative procedure, regardless of the merits of the amendment; but, in my judgment, if this amendment could become a part of the law, it would afford additional markets at a better price to American farmers than any other form of tariff protection which could be extended to them.

I am sure that all of us realize the tremendous quantity of edible fats and oils used by American consumers. At the same time, our fats and oils must meet the competition of foreign cheap labor as a result of the importation of oils and fats to the staggering amount of more than 1,000,000 pounds a year. I got

the figures this morning from the Department. Three items alone amount to more than a billion pounds of imported oils and fats in competition with the American farmers in their production of food necessities.

Mr. LUCAS. Mr. President, will the Senator yield for a question?

Mr. BANKHEAD. I yield.

Mr. LUCAS. What portion, if I may inquire, of the fats and oils comes from South American countries?

Mr. BANKHEAD. I think the Senator from Nebraska has the figures on that subject. I do not have them before me. Can the Senator from Nebraska furnish that information?

Mr. BUTLER. Will the Senator from Illinois kindly repeat the question?

Mr. LUCAS. I asked the Senator from Alabama what portion of the fats and oils covered by the amendment comes from the countries of South America?

Mr. BUTLER. I have a short statement relative to the effect of the amendment on inter-American trade which I should like to put in the RECORD, if the Senator from Alabama will permit me.

Mr. BANKHEAD. It is agreeable to me, of course.

Mr. BUTLER. A particular effort has been made in drawing up this amendment to avoid placing bars on inter-American trade beyond what were absolutely necessary to provide protection for the American producer. I believe that Senators know I am in sympathy with all efforts toward protecting American farmers against competitive imports from Latin America of such products as meats, sugar, hides, wool, and grains. In this particular amendment, however, I have made a special effort to soothe those who might oppose it on grounds of hemispheric solidarity or the good-neighbor policy. Thus, I have deliberately refrained from including provisions giving protection to some products which ought to be protected, and I hope some day will be protected. For example, flaxseed and linseed oil do not receive any additional protection by this amendment. There is no duty provided for on the new drying oils from Brazil, such as oiticica and castor. Latin American countries are not important suppliers of any of the oils mentioned, with a few minor exceptions, nor of jute, nor of tropical starches, nor of fish meal.

The principal foreign suppliers for these products are:

Oils: The Philippine Islands and the Dutch East Indies.

Jute: British India.

Starches: Dutch East Indies.

Fish meal: Japan.

The amendment as presented is an exact copy of one which was presented in the House. It has been carefully studied and, as I have said, purposely avoided covering articles which come from South American countries, because we did not want to do anything that would upset the policy of hemispheric solidarity.

Mr. BANKHEAD. Mr. President, I am glad, indeed, the Senator has made that contribution, because I am sure that all of us are interested in our relations, particularly at this time, with the South American countries. There are sometimes, of course, prices which must be paid which we cannot afford to pay if such prices are necessary to continue friendly relations.

Mr. ADAMS. Mr. President, will the Senator yield to an inquiry?

Mr. BANKHEAD. I do.

Mr. ADAMS. My inquiry is as to the rates. I notice a provision with reference to the tariff rate on jute. Is that an increase on the present rate?

Mr. BANKHEAD. There is now, as I understand, no tariff rate on jute. The junior Senator from Georgia and the senior Senator from Alabama have on several occasions during the last 2 or 3 years endeavored to get a tariff rate fixed on jute, but we have been unsuccessful.

Mr. ADAMS. The rates contained in the amendment are increases?

Mr. BANKHEAD. They are all increases and intended for the purpose of protecting the American farmers in the matter of the commodities set out in the amendment.

Take copra. From August 1, 1940, to August 1, 1941, we imported 555,991,000 pounds of copra.

Of coconut oil, during the same period, we imported 371,916,000 pounds.

Of palm oil we imported 253,151,000 pounds. Those three items together—and there are many other oils not included in this list—amount to 1,191,058,000 pounds.

Mr. President, if the lard producers of this country, the peanut-oil producers, the soybean producers, the cottonseed-oil producers, had the advantage of a market in this country for that additional amount of farm production, of course at a better price than they are now enabled to get for their production because of these excessive imports of the products of cheap labor; if, I say, we could establish American farmers upon the basis of the elimination of that competition, I know of no legislation that would be more beneficial to American agriculture and more profitable to American farmers. It is a great field that could be supplied at a reasonable profit by our farmers in all sections of America if they could only be relieved of the burden of these tremendous imports of the products of cheap labor in other countries.

There are other items in this amendment, such as a tariff on sago and tapioca, which come here from the Netherlands. If a tariff could be placed upon the imports of these communities, we are assured that a great sweetpotato starch industry would be developed in this country.

Mr. GILLETTE. Mr. President, will the Senator yield for an inquiry?

Mr. BANKHEAD. Yes.

Mr. GILLETTE. I have just been glancing through the amendment. It deals entirely, does it not, with customs duties, amending the Tariff Act in regard to customs duties rather than excise taxes? There is no attempt to change any excise taxes?

Mr. BANKHEAD. No; the amendment is merely intended to put an import tax on these various products.

Mr. GILLETTE. It changes the present Tariff Act by changes in the customs duties?

Mr. BANKHEAD. That is correct. It increases the rates, primarily, and adds some rates where there are now none at all.

Take the subject of jute, which we have discussed here many times, which is produced in India by the cheapest labor in all the world in competition with American cotton. As the result of the generosity of Members of Congress from all sections of the country, our farmers have been obliged to call upon the Government to finance their surplus production of cotton, which has been costly to our Government and troublesome to our cotton farmers. Great quantities have accumulated; and, notwithstanding that, we are forced to compete with the cheap-labor producers of jute in India, whereas if it were excluded, or a satisfactory tariff were placed upon it, it would permit an additional consumption of cotton equivalent to at least 2,000,000 bales a year, and in a very short time we would entirely eliminate the surplus pile of cotton now accumulated at the expense of the taxpayers of the country. But still, although most agricultural commodities are protected by a tariff—wheat, corn, barley, oats, butter, eggs, beef, chickens, and nearly everything else—we have been unable to get any sort of protection for cotton against cheap jute; so jute is included in this amendment.

I shall not take more time in the discussion of this subject; but, as I said, it is one that is close to my heart, one that appeals to my judgment, and it ought to become the fixed policy of this country. We ought to protect our American farmers in the sale and consumption of American-produced agricultural commodities.

That is all I have to say. I should like very much to see this amendment go to conference and receive further consideration and discussion.

I ask unanimous consent to have printed in the RECORD at the end of my remarks a detailed statement of imports of oils and oilseeds during the past 4 years, separately.

The PRESIDING OFFICER. Without objection, it is so ordered.

The statement is as follows:

Imports	1937–38	1938–39
Oils and oilseeds:		
Oilseeds, 1,000 lb	566,651	467,470
Flaxseed, 1,000 bu	17,861	18,744
Rapeseed, 1,000 lb	7,368	9,860
Sesame seed	4,072	9,424
Oils	12,302	14,275
Coconut oil	344,738	379,643
Olive oil, edible	58,665	65,664
Olive oil, inedible	17,015	38,447
Palm oil	373,222	272,248
Peanut oil	21,303	15,978
Perilla oil	41,025	39,312
Rapeseed (colza) oil	939	991
Soybean oil	12,137	2,526
Tung oil	129,351	96,460

Imports of principal agricultural products into the United States

	1938–39	1939–40	1940–41
	1,000 lbs.	*1,000 lbs.*	*1,000 lbs.*
Copra	467,470	559,683	555,991
Flaxseed (bushels)	18,744	13,212	11,198
Rapeseed	9,860	6,742	4,359
Sesame seed	9,424	15,485	9,220
Coconut oil	379,643	319,544	371,916
Palm oil	272,248	246,178	253,151

Source: Table 660 (Agricultural Statistics, 1940).

Mr. WILEY. Mr. President, I shall vote in favor of the particular amendment which is now under discussion.

Months ago, speaking in the Senate, I suggested that the Congress could best serve the Nation by passing a realistic tax measure which would at least take care of a part of the overhead of government. I also suggested in those remarks that Congress should insist that our public managers in Washington cut down on nondefense items. Those remarks were made in the opening days of the present session. The third suggestion I made at that time was that Congress insist that the President require collateral security for the property and credits which he extends to other nations. The fourth suggestion I made was that the Senate should become realistic and insist that the Government get value received for the money being spent on the defense program.

Several weeks ago there appeared in the newspapers of the Nation a statement indicating that the President had received from the British some $500,000,000 in American securities, deposited as security or collateral for advances. The Congress and the people of the country are entitled to know what the true situation is in relation to the money spent under the Lease Lend Act. I hope that information will soon be definitely before Congress. I also hope the suggestions made by the Senator from Virginia [Mr. BYRD], by Mr. Baruch, and others will soon bear fruit, to the end that government will cut down on nondefense items, and that waste by government will be cut out of the picture.

Mr. President, there are some things about the pending tax bill which, of course, I do not entirely approve; but I believe it attempts to meet one of the tests which I suggested months ago; namely, that we adopt a realistic tax program. Therefore, in spite of what have been called the inequities of the bill, in spite of its violating some of the principles of taxation which were adhered to at the time of the formation of our Government—in spite of all these and other factors, recognizing that it is imperatively necessary that funds be obtained, I personally shall support the bill.

Mr. President, I supported the committee amendment reducing the exemptions on single persons from $800 to $750, and on married persons from $2,000 to $1,500 for the following reasons:

First. It will increase the number of income-taxpayers by 2,256,000, making 13,131,000 of our citizens subject to taxation. In England, single persons are entitled to an exemption of $325, and married persons to an exemption of $560. Canada allows an exemption of $750 for single persons and of $1,500 for married persons, and each married person has an additional $400 exemption for each child or dependent.

Second. This reduction will produce additional revenue to the Government of $304,000,000, but out of that amount only $49,000,000 will come from the new taxpayers, and out of the $49,000,000 only $10,000,000 will come from those who for the first time will file returns. This indicates that there is nothing inequitable about this provision so far as it relates to the new taxpayers.

Third. The new taxpayers, 2,256,000 in number, will pay on the average a little over $3 apiece. For the first time it will be brought home to them that they are paying a direct tax to their Government for the support and defense of their Government.

Fourth. This lower-income group is not squawking. The single man who makes $1,500 a year net is not squawking if he has to pay $63 of it to the Government in this period as a defense income tax, especially when his own brothers are out in the camp getting $21 a month, and the married man with no children who makes $2,000 a year is not squawking when he has to pay $39 tax to his Government. He knows that in the payment of that tax he is not only contributing toward the maintenance of his job and his property, but he is building a defense for those great American freedoms which everyone in America possesses equally.

Fifth. I am supporting the committee amendment because to return to the old exemptions would relieve me of an additional tax of $126, and would prevent the Government from collecting $304,000,000 which it sorely needs.

In relation to inheritance taxes, I voted in favor of reducing the estate exemptions from $40,000 to $25,000 and the insurance exemptions from $40,000 to $25,000 because I felt that the Government's great need for funds justified this reduction as an emergency measure.

Mr. President, I desire to compliment the Senator from Georgia [Mr. GEORGE], the new chairman of the Senate Finance Committee, on his effective and brilliant presentation of this measure. The Nation is fortunate in having the services of this great public servant.

On April 24, 1941, the Treasury Department presented its revenue plans before the Ways and Means Committee of the House. Hearings were held on the measure, and were concluded on May 28. The measure was reported to the House by the committee on July 24, 1941, exactly 3 months after the Treasury Department first presented its plans to the committee.

At the time the Treasury Department made its initial recommendations Treasury Department officials estimated that it would need three and one-half billion dollars to finance two-thirds of the Government's defense operating costs for the fiscal year of 1942.

In the 3-month interval that the committee deliberated on this measure defense expenditures had risen sharply. By July 24, 1941, when the bill was reported to the House, it was estimated that the original proposal of the Treasury Department would meet only about 60 percent of the expenditures.

Then, as we know, the House whittled $300,000,000 from the total by its elimination of joint income-tax returns. No effort was made to recoup this amount; and the bill as it came to the Senate Finance Committee proposed to raise only about $3,200,000,000.

The Treasury tax experts appeared before the Senate Finance Committee on August 8 and testified that the bill was inadequate "even before it is passed." At that time the appropriations and authorizations over the Budget had increased about $14,000,000,000 since the measure was first considered by the House.

The Treasury Department early in August recommended a bill which would raise about three and a half billion dollars, and it proposed taxes for $4,000,000,000, though we know that if we are to finance two-thirds of the expenditures of the defense program, as was originally intended, it would require a tax program which would raise about $5,400,000,000.

By August 14, 1941, the Treasury Department was studying higher social-security taxes, as they might possibly serve to halt the inflationary spiral.

Today we consider at long last the pattern of tax legislation which has evolved from the various conflicting tax policies of the Federal Reserve System, the Office of Price Administration and Civilian Supply, the Congressional Joint Committee on Internal Revenue, the Treasury Department, the Chief Executive, and various congressional leaders.

Today we consider a measure which provides for an unprecedented $3,672,400,000 revenue—approximately $456,000,000 more than was voted by the House.

There are several conclusions which are inescapable as we study this legislation in its hectic history of some 4 months.

To begin with, we know that the cost of the defense program, as it is being planned at the present time, will exceed $50,000,000,000. The bill which the House passed on August 5 was more than $2,000,000 short. The present tax bill is inadequate. It missed its mark in the original Treasury recommendations; it missed its mark as it passed the House, and it will miss its mark as it passes the Senate, which means that more tax legislation will have to be considered.

This is a bill which was inadequate the day it was conceived, and it has been consistently out of date ever since. It is inadequate in meeting the rising defense costs, and it would be out of date in making inroads on our back wall of debt.

The broadening of the tax base was a belated afterthought. It was a tardy recommendation, because it was not made to the House Ways and Means Committee in time for them to make an intelligent broadening of the tax base correlated with the rest of the tax program.

The same thing is true of the recommendation to use taxes as a price check and the recommendation to broaden social-security taxes as a potential curb on inflation.

All along, it seems to me that every proposal for this tax measure has come as an eleventh-hour addition to an existing tax structure which is also out of date and whose antiquated foundations have long since needed a thorough overhauling.

This legislation of necessity has been hurried; and while some call it slipshod, jerry built, the worst tax legislation in our history, it does a pretty good job in that it gets results, but not enough results.

All this means just one thing. We are discussing today a tax bill which will have to be supplemented with more tax legislation. We know today that next year—yes; it may be this year—another tax bill just as big as this one or bigger will have to be drafted. On the other hand, we know that there have already been too many eleventh-hour attempts hurriedly to revamp this legislation.

We know that delay at this point costs the Treasury hundreds of millions of dollars in revenue. The Nation needs this revenue not merely because of defense expenditures but because of the reckless and profligate squandering of the past 8 years.

We know today that we need a substantial increase in the tax burden if we are realistic enough to face the facts, and if we are to maintain the credit of the Nation, and if we are to maintain our defense program.

The emergency defense appropriations add up to something like $43,000,000,000, and another $7,000,000,000 is contemplated. These expenditures may be greatly increased in the near future, and they will have to be added to the normal expenditures of an extravagant Government.

The past few years have been an orgy of extravagance, and the administration wastrels have spent as much as it cost the Federal Government in the first 131 years of our country's existence.

We have had a series of staggering annual deficits, and our national credit has been strained because these deficits have piled up a tremendous national debt. Today we are loaded down with a burden of taxation, largely in hidden taxes. This burden is actually 50-percent greater than under the World War Revenue Act.

The finances of the United States were in a critical condition long before this emergency began. It is well for us to speak of economy when we are considering a tax measure. There is little point in condemning high taxes as long as we permit extravagant spending. We cannot condemn a man for not trying to pay his bills, but we can condemn him for the extravagance which caused him to run up bigger bills than he could pay.

I keenly regret that the spending committees of Congress work at cross-purposes with the taxing committees of Congress. It is unbelievable that the spending and revenue-raising departments of Government are not correlated.

I am wholeheartedly in accord with the proposal of the junior Senator from Virginia [Mr. BYRD], calling for an investigation of nonessential Federal expenditures, together with recommendations for the reduction and elimination of some of these extravagances. I also agree with the purposes of his resolution calling on the Budget Director to submit curtailed budgets which might be possible for the current fiscal year, and supplying to Congress complete information as to items identified as defense and items identified as nondefense.

In the midst of all the involved discussion on this contemplated tax measure we must not forget the simple, homely truth that a dollar eliminated from the expenses of government is a dollar which we do not have to collect by taxation.

Mr. President, I feel that in view of the present critical situation there is almost no alternative to supporting the general objectives of tax legislation which attempts to bring revenues and expenditures closer together, though this measure may be a hopelessly inadequate stopgap, built on the shifting sands of day-to-day expediency.

I think it is undeniable that if we had written an adequate tax bill this year, based on a thorough overhauling of our present revenue set-up rather than merely being superimposed on it, we could have avoided a great deal of fiscal trouble next year.

The record on this tax bill is clear. There has been consistent confusion and disagreement on the tax objectives of the administration, and these disputes have consistently overshadowed the major issues of the tax measure.

It cannot be denied that this bill falls short of an intelligent long-range program of fiscal planning. It cannot be denied that this bill does not evidence any close teamwork between the Executive, the Treasury Department, and congressional leaders.

Mr. President, I want to go on record as being emphatically opposed to a promiscuous program of hidden taxes which blackjack the poor man. The poor man has to spend more of his income, and concealed taxes consequently hit him hardest. That is one of the reasons why I have favored, as far as is possible, the elimination of concealed taxes and the consideration of an intelligent broadening of the tax base—not merely a last-minute effort to broaden the base.

I believe, incidentally, that an intelligent program of broadening the tax base, coupled with an elimination of hidden taxes, might actually, in normal times, involve a smaller tax payment for the "little fellow" than the present confiscatory sleight of hand involved in hidden taxes.

An intelligent broadening of the tax base would also achieve the desirable result of instilling a more widespread consciousness of the responsibilities for payment which government expenditures inevitably bring.

I feel that the tax programs of this administration have consistently interfered with normal recovery. I feel that the tax programs of this administration have been too much intrigued by the painless possibilities of extracting money by hidden taxes.

I feel that this administration has been afraid to let the bulk of the voters become conscious of the cost of the administration's programs. Consequently, there have been too many hidden taxes.

I also feel that the administration's program of taxation has been indifferent to the effect of taxation on small enterprises. To a certain extent the administration's program has penalized business enterprise and business expansion by taxing speculative and expanding business more than other investments.

In normal times taxation should be an economic lever to stimulate business expansion and the encouragement of reemployment, rather than a penalty to be imposed on business activity. In other words, taxation can be used to encourage venture capital.

We could tax improvements on land at a lower rate than the land itself is taxed, and in normal times we could devise a tax on idle capacity and idle funds.

There are no tax panaceas, but it should be possible for us to write a whole new tax philosophy which might serve as an economic stimulant.

In general, there is a great deal to be said for the so-called progressive taxes which have some relationship to ability to pay, as opposed to regressive taxes which have no relationship to ability to pay.

These are all questions, however, which should be ironed out in a unified, coordinated revenue program with the tax committees of the Senate and the House meeting together with the Appropriations Committees of both Houses and with Treasury and Budget officials. That would mean simply that the Appropriations Committees would not be independent of the taxing committees. That would mean that we would have a unified revenue system.

The glaring weakness in our present tax structure is that we have befuddled our citizens into believing that they are not paying taxes.

Today the United States must equip itself so that it can meet any emergency. Let us be realistic. We cannot evade the fact that this means taxation. We cannot borrow forever.

The bill for defense preparation must be paid. This is no time for political shilly-shallying. This is a time for realistically meeting the issue.

Our first job is to get preparedness. That preparedness must not be obstructed by a lack of financial resources. The problem is bigger than simply raising the money. We must know what effect these taxes will have on production, the accumulation of capital, the utilization of savings, and so forth.

We cannot, however, long evade the responsibility for analyzing our whole tax problem. It may be necessary to make a restatement of that problem in terms such as we have never known before.

Special taxes, excise taxes, luxury taxes, or war taxes are, of course, matters to be considered by the experts and applied so that they will release commodities and types of labor and types of equipment for the program.

As far as excess-profits tax legislation is concerned, I believe in a plan of excess-profits taxation, though I believe that it should not unduly discourage production. No economist has as yet devised an absolutely just excess-profits tax, but some kind of an excess-profits tax is vital as a necessary curtailment on defense and war profiteering.

I think we can concede at the outset, without any emotional appeal, that everyone is opposed to profiteering as distinguished from a fair and reasonable return on capital.

In order to write an excess-profits tax, it is self-evident that we have to determine what constitute excess profits. We know that in any system of free enterprise based on individual initiative, economic activity requires a certain operating level of profits. If profits are slashed below that level, production is crippled, and the incentive for management is destroyed. When profits are cut over that level, however, we are eliminating what we call excess profits.

No one has any quarrel with the Government's demand for these excess profits; but there is a difficult problem involved in determining the operating level above which excess profits occur. There are, obviously, many complicated factors which make this level difficult to determine.

We know that inflation brings excess profits. We know that monopolies may create excess profits, and we know that a distortion in the normal demand, such as we are experiencing today, may create excess profits.

We know, further, that we can control inflation to some degree, at least, by price controls and by a combination of taxation and borrowing in our defense financing. We know that we can tighten our control on monopolies; and, as a matter of fact, we are already doing so.

Our problem, then, is to cope with the excess profits which result from a distorted demand factor. We know that the supply factors of those goods for which there is an abnormal demand cannot be readily increased overnight. Likewise, the demand factor cannot be greatly altered, though we may attempt substitutions, synthetics, conservation, and economy in the use of goods whose supply is inadequate to the demand.

Because we cannot exercise complete control of the demand factor, it is reasonable to expect possibilities for excess profits. It is likewise perfectly reasonable for the Government to attempt to recover a substantial share of these excess profits, created in a large measure by the activities of government itself.

In conclusion, it is apparent that the alternative to inflation, or a complete system of price control, which would involve drastic and almost impossible alterations, is a program of intelligent taxation coupled with intelligent economy in government.

I do not feel that this measure represents a complete and adequate approach to the tax problem; but I repeat that the grave necessity for financing our defense efforts leaves Congress with little alternative other than to support the general objectives of any bill which seeks to bring revenues and expenditures into a closer relationship.

Mr. GEORGE. Mr. President, much as I should like to see placed upon imports some of the restrictions covered by the amendment offered by the Senator from Nebraska, and heartily as I have approved some of the tariff rates suggested in the amendment, I must very frankly say to the Senate that it is useless to take this amendment to conference. Not only that, but I must also say that this amendment was not offered to the Finance Committee, that nobody at all was given any hearing on it, and there is hardly an industry that is not affected by it. I know that from my past experience and from a hurried glance at the amendment. I know very well that if we were to take the amendment to conference the House would refuse to consider it, because in the case of the last tax bill they served repeated notice on the conferees that they would not consider a tariff item in a tax bill. They positively took that position, and they had very good reason for it. Tariff bills originate in the House. Every Member of the House has his pockets full of tariff bills, coming to the Ways and Means Committee every time a regular tax bill or revenue measure comes up. They will say, "No; we are not going to accept such an amendment on this bill; we have not time to give consideration to it; we do not know whether the proposal is right or whether it is wrong, and therefore we cannot agree to it."

We have been in the habit of adopting two or three amendments, which were tariff measures, and we fought very hard to get some of them accepted by the conferees, but by formal action the conferees have heretofore said to us, "We will not accept another amendment to the tariff law."

I do not know how well this amendment has been considered. I know there are a great many things in it, which I long ago advocated in this body. I tried to have a tariff put on jute, waste bagging, and so forth, when we were considering the 1929–30 tariff measure, and I know that I was completely overwhelmed. Every farmer in the West was against it, every producer of oats and wheat and potatoes said, "We must have this kind of cloth to make our sacks." There must be something to it, or Senators would not have voted as they did. All New England was against it because jute products are manufactured in New England. I could pick out half a dozen items in the amendment which would seriously affect industry of various kinds, whether justly or unjustly, I could not tell at the moment.

Then there is another most important consideration. With the countries which produce every one of these materials, we have reciprocal tariff agreements, which may affect this amendment. If the Senate wants to vote it into the bill, it will be all right with me, but I know what will happen to it. I should be bound, if the Senate adopted it, as long as there was any reasonable chance to get the House conferees to take it, but I do not know how many of the tariff treaties between this country and the other producing countries from which these materials and products come would be violated.

I am calling attention to these things, not because I personally oppose many of the rates suggested, for to the extent that I have any knowledge of what is dealt with in the amendment I would have the very greatest sympathy with it, and if it should come over from the House as an independent tariff measure, I should vote for it, and should be glad to vote for it. But I suppose there are, by and large, at least 10,000 amendments which various Senators wish to offer to the tariff law, and if this amendment were accepted there would be no more reason for opposing them than for opposing this amendment. I am not sure but that the entire Ways and Means Committee of the House has acted on this matter, independently of the conferees, because they have repeatedly insisted that they would not again consider pure tariff measures in a revenue act.

Not because I oppose the amendment, not because it may not be wholly meritorious—and to the extent that I am familiar with it at all I believe it to be meritorious—I am obliged to call the attention of the Senate to the situation, and to suggest that, in my judgment, it would be far better for the House to be finally compelled by the friends of the amendment to approve it there as a separate bill, and send it to us. Of course, if that were done, it would open up the whole tariff question, but perhaps the tariff should be reopened; I do not know, except that at this time, because of the international situation, we have not very much foreign trade anyway and, therefore, there might not be a very keen interest in tariffs generally.

Mr. BUTLER. Mr. President, it is not my intention to make any reply to the remarks made by the distinguished Senator from Georgia, except to remind him, and perhaps others in the Senate, that this has been a time of breaking precedents, and perhaps the conference committee, or our good friends in the other House, may be willing to break a precedent this time and give this very estimable amendment favorable consideration, for it certainly is to the best interests of our country as a whole, and I should like very much to see them have the opportunity of giving it consideration.

I ask for the yeas and nays on the amendment.

The PRESIDING OFFICER. The yeas and nays have been requested. Is the demand sufficiently seconded? In the opinion of the Chair, it is sufficiently seconded.

Mr. CONNALLY. A parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. CONNALLY. How many Senators raised their hands?

The PRESIDING OFFICER. The Chair counted 14 hands raised. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. HAYDEN (when his name was called). On this vote I have a pair with the junior Senator from Minnesota [Mr. BALL]. I therefore withhold my vote.

Mr. HOLMAN (when his name was called). I have a general pair with the junior Senator from Tennessee [Mr. STEWART]. I am not advised how he would vote, if present. I transfer my pair to the senior Senator from Ohio [Mr. TAFT], whom I am informed would vote "yea," and I shall vote. I vote "yea."

Mr. McNARY (when his name was called). Again referring to my pair and transfer, I shall vote. I vote "yea."

The roll call was concluded.

Mr. HILL. I announce that the Senator from Washington [Mr. BONE], the Senator from Virginia [Mr. GLASS], the Senator from North Carolina [Mr. REYNOLDS], and the Senator from New York [Mr. WAGNER] are absent from the Senate because of illness.

The Senator from Kentucky [Mr. CHANDLER] is absent on a defense-inspection tour.

The Senator from Texas [Mr. CONNALLY] and the Senator from Indiana [Mr. VAN NUYS] are detained in a conference at the White House.

The Senator from Mississippi [Mr. BILBO], the Senator from South Dakota [Mr. BULOW], the Senator from South Carolina [Mr. PEACE], the Senator from Nevada [Mr. MCCARRAN], the Senator from Georgia [Mr. RUSSELL], and the Senator from New Jersey [Mr. SMATHERS] are detained on business in various Government departments.

The Senator from New Mexico [Mr. CHAVEZ], the Senators from Tennessee [Mr. MCKELLAR and Mr. STEWART], the Senator from Utah [Mr. MURDOCK], the Senator from Florida [Mr. PEPPER], the Senator from Oklahoma [Mr. THOMAS], and the Senator from Montana [Mr. WHEELER] are necessarily absent.

Mr. AUSTIN. The Senator from Pennsylvania [Mr. DAVIS] has a general pair with the Senator from Kentucky [Mr. CHANDLER]. He is detained on official business.

The Senator from Minnesota [Mr. SHIPSTEAD] has a pair with the Senator from Virginia [Mr. GLASS].

The Senator from Indiana [Mr. WILLIS] has a pair with the Senator from New Mexico [Mr. CHAVEZ].

The Senator from Kansas [Mr. REED] has a general pair with the Senator from New Jersey [Mr. SMATHERS].

The result was announced—yeas 31, nays 33, as follows:

YEAS—31

Aiken	Clark, Idaho	Nye
Andrews	Downey	O'Daniel
Austin	Eastland	Overton
Bankhead	Ellender	Smith
Brewster	Hill	Spencer
Bridges	Holman	Thomas, Idaho
Brooks	Johnson, Colo.	Tobey
Bunker	La Follette	Waligren
Burton	Langer	Wiley
Butler	McFarland	
Caraway	McNary	

NAYS—33

Adams	Green	Murray
Bailey	Guffey	O'Mahoney
Barbour	Hatch	Radcliffe
Barkley	Herring	Rosier
Brown	Hughes	Schwartz
Byrd	Kilgore	Thomas, Utah
Clark, Mo.	Lee	Truman
Danaher	Lodge	Tunnell
George	Lucas	Tydings
Gerry	Maloney	Vandenberg
Gillette	Mead	Walsh

NOT VOTING—32

Ball	Hayden	Shipstead
Bilbo	Johnson, Calif.	Smathers
Bone	McCarran	Stewart
Bulow	McKellar	Taft
Capper	Murdock	Thomas, Okla.
Chandler	Norris	Van Nuys
Chavez	Peace	Wagner
Connally	Pepper	Wheeler
Davis	Reed	White
Glass	Reynolds	Willis
Gurney	Russell	

So Mr. BUTLER's amendment (for himself, Mr. BANKHEAD, and Mr. EASTLAND) was rejected.

Mr. BUTLER. Mr. President, I ask to have printed in the RECORD at this point a statement by myself on the subject of the bill under consideration.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

Mr. President, the tax bill before us for consideration represents, I know, the hard and unremitting labor of many Members of this body and of the House of Representatives, particularly those who are members of the Senate Finance and the House Ways and Means Committees. The framing of a tax bill, or should I say the framing of a bill which raises rather than lowers taxes, is not the most popular task on earth. In fact, I suppose, from the public standpoint, those who write the taxes are hardly more popular than those who collect them, and we all know where the latter stand in the public estimation, all the way back to Biblical days, when "publicans"—the ancient term for tax collectors—were classed with sinners. Yet though the preparation of a tax bill is a hard job, it is a necessary job, and those who have given so unstintingly of their time and energy in the formulation of this bill surely deserve our gratitude, whether we like their work or not.

It is a necessary job because the bills we are running up must be paid. The old saying, "He who dances must pay the piper," has at last come home to us. Due to some of the past free spending and "dancing" which we have had, it becomes necessary for us to consider a bill, harsh in many respects, in order to face a great problem of national defense. It is futile to think that we can continue to appropriate billions for defense, billions for lease-lend aid, billions for loans in the name of hemispheric solidarity, billions for New Deal propaganda, billions for this, that, and the other, and then expect somehow to avoid tax increases. The Finance Committee merely takes up where the Appropriations Committee leaves off; once we have spent Government money, or appropriated it to be spent, there is nothing to do but to turn around and levy the taxes to pay our bills.

Much better would it have been had this body followed a program nearer to that of my own State of Nebraska and paid its bills as it contracted them. Then we would not have been faced with the necessity of financing a mammoth defense and aid program on top of a $50,000,000,000 deficit. However, this was and is not the case, and due to the present financial emergency, I am forced to support this bill even though it carries with it certain inequalities. It is upon this matter that I wish to comment briefly.

In the first place, I wish to say that I believe that this is only the beginning of a hard-boiled taxing program which every citizen of this country will feel before it is through. I do not want my people in Nebraska or the people in any other State to believe that this bill will take care of the expenditures that have been voted and are to be voted. The administration has committed itself to a finish fight, we hope and pray without military engagement, to destroy Hitlerism. It will cost more than this bill can ever raise. Thus more taxes will come as long as such a policy is continued.

The farmers whom I represent will naturally be hit harder by the taxes imposed under this bill than any other class. Their income is still very meager. They still are in a depression, compared with what they should be earning, and the boom in industrial areas seems likely to increase the disparity between agricultural and industrial incomes. When certain pending trade agreements are put over, their incomes—real incomes, I mean, not Government doles—will be still smaller. This bill, however, imposes taxes on automobiles, theater admissions, gas and electrical appliances, and a long list of other goods bought by farmers, and the taxes levied by this bill therefore fall disproportionately heavy on farmers and others whose ability to pay is small. This is, to my mind, the greatest inequity in this bill.

However, the bill carries one clause which is to be complimented and should be supported by every Member of Congress. Section VI provides for a committee to study the possibilities for reduced nondefense expenditures. And there are many such expenditures that can be reduced. I would venture to estimate that an amount equal to two-thirds of the revenue to be raised by the tax increases in this bill could be saved if the administration would really undertake an economy drive throughout all the departments and agencies. I am confident that the results of the committee's investigation will prove my statement.

I am in agreement with the committee in striking from the bill the proposal to increase the gasoline tax. Gasoline is already one of the most heavily taxed commodities there is, by both State and Federal Governments. It is a prime essential on the farm for the operation of farm machinery used in production of the Nation's food supply. In addition, it should be remembered that the gasoline user and automobile or truck operator is to pay greatly increased taxes by other provisions of this bill. Nearly $300,000,000 of the increased revenues are to be taken from the pocket of the automobile or truck owner or buyer.

I heartily approve of the exclusion of the mandatory joint income-tax provision. This proposal would have penalized married couples with separate incomes, and would be, in effect, a tax on marriage, while, at the same time, it would strike at the rights of women and undo at one stroke much of the progress toward equality that has been made by women in the last half century.

One tax in this bill which is difficult to justify is that on electric and neon signs. The committee has seen fit, wisely, I believe, to eliminate the objectionable tax on outdoor-advertising billboards. It is hard to understand why the electric and neon signs are still to be taxed when the corresponding tax on billboards has been removed.

One provision which has provoked much controversy and criticism from many quarters is the broadening of the income-tax base. I am sure we all regret the necessity for this move. It is not pleasant to ask those of small income to pay taxes; but Senators must remember that this is not the first tax on those less able to pay. For years we have had taxes on gasoline, beer and liquor, tobacco, and many other products, which fall heavily on those whose capacity to pay is small. The income tax simply taxes such people directly as well as indirectly. It will cause each individual to realize more fully his responsibility for our national welfare and to shoulder his share of the burden. I know every patriotic American is willing to bear his share of the load. In addition, we must beware of taxing private capital and the profit motive out of existence or to the point where it will cease to operate for the creation of national wealth. It used to be that the rich could pay the cost of Government, but now we have taxed them almost to the limit, and we have come to the point where everyone must contribute directly.

One possible source of revenue was completely ignored by the committee. I refer to the revenue to be raised from increased customs duties on imports of competitive commodities. Increasing tariff rates would not only give us added revenue at a time when we sorely need it but by providing needed protection to American agriculture, industry, and labor would increase the taxpaying ability of those groups and thus increase the yield from the existing taxes. At the present time we have the anomalous situation of Congress raising taxes while the State Department, through its trade-agreements program, is cutting down taxes on imports. Of course,

revenues from customs have increased slightly in recent months, because of the great increase in quantity of dutiable imports, but they are nothing like as great as they could be under a program of judicious taxation of imports, or as they would be if the State Department were restrained from cutting down these duties. This subject deserves further study, and I hope to give some time to it myself during the next few months and present my conclusions and suggestions to this body for consideration.

The present bill is not perfect in all respects. It is always a problem, in asking our citizens to take on added burdens, to apportion those burdens as equitably as possible, with due regard to the taxes already paid by various groups and to their relative capacities to pay. It is probably impossible to be fair in every respect, and, as I have pointed out, personally I would change some of the provisions of this bill materially, if I had the sole right of decision on it. No doubt every Senator in this Hall would likewise make some changes. Nevertheless, I think we must recognize that the committee has done a generally good piece of work and that, on the whole, the bill is about as fair and equitable as can reasonably be expected under the circumstances.

In conclusion, I wish to state that I hope the administrators of the money received under this bill will consider every expenditure most wisely and cautiously, for great sacrifices will have to be made to pay these taxes, and we owe it to our people to see that the load is not made heavier than is absolutely necessary.

Mr. BAILEY. Mr. President, I now wish to offer an amendment proposed by myself, which is printed, the effect of which is to transfer the tax of 10 percent on retail sales of jewelry to the manufacturer. I ask that the amendment may be read for the information of the Senate.

The PRESIDING OFFICER (Mr. McFARLAND in the chair). The amendment will be read.

The CHIEF CLERK. On page 93, after line 2, it is proposed to insert the following new paragraph:

"(11) Jewelry: All articles commonly or commercially known as jewelry, whether real or imitation; pearls, precious and semiprecious stones, and imitations thereof; articles made of, or ornamented, mounted, or fitted with, precious metals or imitations thereof; watches and clocks and cases and movements therefor; gold, gold-plated, silver, silver-plated, or sterling flatware or hollow ware; opera glasses; lorgnettes; marine glasses; field glasses, and binoculars: 10 percent. The tax imposed by this paragraph shall not apply to any article used for religious purposes, to surgical instruments, to frames or mountings for spectacles or eyeglasses, or to a fountain pen if the only part of the pen which consists of precious metals is the point."

On page 93, strike out lines 14 to 25, inclusive; and page 94, strike out lines 1 to 4, inclusive.

Mr. BROWN. Mr. President, will the Senator yield?

Mr. BAILEY. I yield.

Mr. BROWN. As I understand, the Senator from North Carolina proposes a 10-percent tax on the manufacturer's price in lieu of a 10-percent tax on the retailer's sales price on jewelry. That matter has been the subject of considerable discussion. I am wondering whether the Senator would accept a modification of his amendment by which he would raise the tax from 10 to 15 percent, for the reason that a 10-percent tax on the retail price would yield considerably more than a 10-percent tax on the manufacturer's price, and in order to adjust the matter as nearly as it can be done—and I base my statement upon my recollection of the testimony which we heard in the Finance Committee—if we provide a 50-percent increase in the rate we would obtain approximately the same amount of revenue. I make that suggestion to the Senator from North Carolina.

Mr. BAILEY. Mr. President, the suggestion made by the junior Senator from Michigan is agreeable to me, and I ask leave to modify my amendment on page 1, line 9, by changing 10 percent to 15 percent.

The PRESIDING OFFICER. The Senator has the right to modify his amendment.

Mr. BAILEY. My object is not to reduce the revenue but to reduce so far as we can the nuisance and the vexation and expense of the retail sales tax. Probably the most obnoxious, difficult, and irritating of all taxes are taxes on retail sales, and I think as a principle we would be wise to follow the policy of avoiding the imposition of such taxes, and moving in the direction of manufacturers' excise taxes, so far as we possibly can.

In this bill there are three categories of retail-sales taxation—furs, cosmetics, and jewelry. I should like to strike them all out, because they are taxes on retail sales. I do not have to draw the picture for Senators of the clerk in the store and the merchant having to levy a tax on every customer. I have seen that in my own State, and I know what it means. Such taxes are properly called nuisance taxes.

Mr. President, I shall not engage in an elaborate discussion. I hesitated to include furs and cosmetics because I was afraid that if I should undertake to do so I might defeat the entire purpose. I believe this amendment will be favorably received by the Senate, the conferees, and the Congress. I know it will be favorably received by the country.

I am informed that there are about 50,000 merchants in our land selling jewelry. Each Senator can paint the picture for himself. Under the terms of the bill the establishments of 50,000 merchants would have to be inspected and their books would have to be looked into. All their customers would have to pay taxes as they went about their purchases, small and large. So I ask for favorable consideration by the Senate of my amendment.

Mr. SMITH. Mr. President, my attention has just been called to this matter. I know nothing about the jewelry business but, according to the terms of the bill now before us, everyone who sells any of the articles denominated as jewelry must pay the tax. That includes all the 5- and 10-cent stores and any merchants who may have any of such articles for sale. Think of the army of collectors who would be required. If the manufacturer of the jewelry were taxed, his books could be inspected. The number of such manufacturers is not large.

It seems to me that, from the standpoint of economy in collecting the tax, as well as from the standpoint of the revenue to be obtained, the tax on the manufacturers is preferable. Many merchants sell jewelry on credit; and, until they collect, the Government would be out its revenue, whereas the manufacturer sells for cash, and the tax could be immediately collected.

I suspect that there was some favoritism when the Treasury Department asked the Finance Committee to impose this tax on the retailer rather than on the manufacturer. The manufacturer represents big business, and has much influence. I suspect that that fact, rather than the element of economy, entered into the opposition of the Treasury Department to levying the tax on the manufacturer. Every element of economy, expedition, and return to the Government indicates that the tax should be on the manufacturer rather than on the retailer. If the tax were on the retailer it would be necessary to go over the country and hunt down every 5- and 10-cent store and every little shop which has any device which could be called jewelry. Think of the bootlegging that would go on. Many millions of dollars worth of jewelry would be secreted and the needle in the haystack never could be found.

I think this is the most economical, common-sense, and fair way to obtain the revenue if we are to impose a tax on jewelry. Whenever I go into a jewelry store I feel like holding up my hands and saying, "God have mercy!" [Laughter.] I do not know whether I am getting the real article or an imitation. From the standpoint of economy and efficiency the manufacturer is the one who should pay the tax, because he obtains his return immediately. His books are easily inspected, and the work is done. Otherwise, we shall have to go afield to a million places and attempt to collect the tax piecemeal.

Mr. HERRING. Mr. President, I wish to ask the Senator from North Carolina if he will accept an amendment to his amendment, on page 2, line 4, in the section relating to fountain pens, by adding the words "or other essential parts not used for ornamental purposes."

Mr. BAILEY. Mr. President, I understand that the particular item in question relates to fountain pens. The Senator's point is that under the terms of my amendment the gold band around the cap of the fountain pen might be considered as something in the nature of jewelry.

Mr. HERRING. That is correct.

Mr. BAILEY. But if, according to the Senator's suggestion, it is interpreted as being an essential part of the pen, it is not jewelry.

Mr. HERRING. That is correct.

Mr. BAILEY. I will accept the Senator's suggestion, and ask leave to modify my amendment in conformity with the language just stated.

The PRESIDING OFFICER. The Senator has the right to modify his own amendment.

Mr. LUCAS. Mr. President, I rise for the purpose of supporting the amendment offered by the Senator from North Carolina. I wish to take only a moment of the time of the Senate to place in the RECORD certain figures which seem to me to be rather conclusive in favor of his

amendment. I have no reason to doubt that the figures are correct.

The number of returns annually which would be necessary for the retailers to submit if the bill were passed in its original form would be 3,600,000. If the amendment offered by the Senator from North Carolina should prevail only 15,084 returns would have to be made by the manufacturers, the producers, and the importers of jewelry.

The average cost of collection, at $1.50 per return, would be something like $5,400,000 if the returns were made by retailers, whereas if the returns were made by the manufacturers the cost would be something like $22,626.

It is estimated that the loss by reason of inability to collect, to which the Senator from South Carolina [Mr. SMITH] has referred, would be in the neighborhood of $7,500,000 if the tax were paid by the retailers, while nothing would be lost if the tax were paid by the manufacturers.

It is further estimated, based upon the volume of business of 1941, that under the bill in its original form the retailers would sell approximately $500,000,000 of jewelry and with the rate at 10 percent a gross tax of $50,000,000 would be received. It is also estimated that the manufacturers, producers, and importers would receive for the volume of goods based on the 1941 base the sum of $280,000,000. Under the amendment before us a 15-percent tax would raise a gross amount of $52,000,000 or $2,000,000 more than in the original bill. No one will challenge the fact that the cost of collecting the tax is much less under this amendment. This legislation is in the interest of efficiency, the elimination of chaos, and I believe the return of more money.

Mr. GEORGE. Mr. President, I should be glad to accept the amendment if I could. I think I should explain to the Senate why I cannot accept it.

Originally I favored a manufacturers' sales tax on the three items on which it is proposed to impose a retail tax, namely, furs, jewelry, and cosmetics. I hoped that we might be able to work out the problem on that basis. However, I am advised by the Treasury Department that the manufacturers' tax on jewelry would have to be placed at 23.3 percent to produce the same revenue as that produced by a 10-percent retail tax.

Mr. SMITH. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. SMITH. What is the reason, if the retailer sells jewelry which the wholesaler sells to him? Why should the tax be higher?

Mr. GEORGE. The manufacturer sells the jewelry very much more cheaply than does the retailer. That is the main trouble. There is a tremendous markup in jewelry. If a manufacturer adds 5 cents or $5 to a particular article we can be perfectly sure that it will be marked up in some instances as much as 100 percent when the consumer buys it. The retailer figures his percentage on the total cost of his stock.

Mr. TYDINGS. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. TYDINGS. What would happen to the jewlery already manufactured and in the possession of the retailer? Would that escape the tax?

Mr. GEORGE. It would escape the tax unless we impose a floor-stocks tax.

The Treasury Department has pointed out another serious difficulty, and I am referring to it because I am in sympathy with getting rid of the retail tax. I think I should state why the committee as a whole was not able to do what it really wanted to do with respect to these three retail taxes.

Of course, many jewelers buy stones and rings and simply insert the stones into the settings and have the completed articles. Under a prior tax they were held by the Treasury to be manufacturers or producers, and it is difficult for the Treasury to ascertain who are the manufacturers thereof, because in practically every jewelry shop in the country there is some production of jewelry.

The Treasury advises us that whole suitcases filled with the works or parts of works of watches have been brought into the country, and watchcases have then been bought, and watches and parts of watches have been fitted into the cases by the local jewelers. It is difficult to police these transactions and to get the proper tax.

Mr. SMITH. Mr. President, according to that argument, every time a man puts a tire on an automobile he is manufacturing an automobile.

Mr. GEORGE. No.

Mr. SMITH. I should like to know why not.

Mr. GEORGE. He might be repairing it.

Mr. SMITH. Yes; but when a stone is put in a ring, the ring is made to receive the stone.

Mr. GEORGE. Exactly; and the stone is worth very much more than the ring, and, of course, both of them together are sold for more. Moreover, there are a great number of second-hand stones in the country. These are competing with stones actually manufactured or imported into the country.

Mr. SMITH. Exactly; and when I put a tire on my automobile, the automobile is worth more than it was before I put on the tire.

Mr. GEORGE. Mr. President, I am calling attention to the facts which were presented to the committee, and which persuaded me to vote contrary to the way I desired to vote. The Senate may vote as it pleases.

Mr. BROWN and Mr. BARKLEY addressed the chair.

The PRESIDING OFFICER. Does the Senator from Georgia yield, and, if so, to whom?

Mr. GEORGE. I yield first to the Senator from Michigan, and then I will yield to the Senator from Kentucky.

Mr. BROWN. Mr. President, let me say first that there was submitted to the committee an amendment which it seems to me would cover the ruling or regulation of the Treasury construing one who attaches a diamond to a ring to be a manufacturer.

It appeared to me that that ruling was far beyond what the necessities of the case required; but the retail jewelers submitted this suggestion to the committee, and I am wondering if the Senator from North Carolina would consider a further modification of his amendment to eliminate the objection to which the Senator from Georgia has referred.

The language proposed to be added at the end of the amendment reads as follows:

> For the purpose of this section, a retail jeweler who assembles two or more completely finished component parts of jewelry upon which the tax has been paid shall not be considered to be a manufacturer or producer.

I think, as does the Senator from Georgia, that unless something of that kind is included, a large number of retailers might be construed by the Treasury Department, in view of the Department's former ruling, to be manufacturers; and certainly in no ordinary sense of the word is such an assembler of goods a manufacturer.

If the Senator will accept that amendment, I think the major objection which influenced the Finance Committee to vote the other way on the matter will be eliminated.

Mr. BAILEY. Mr. President, I have not the slightest objection to the amendment.

Mr. GEORGE. Let me call the Senator's attention to the fact that the Treasury insists that it would take a tax of 23.3 percent to produce the same revenue, while the loss of revenue under the amendment would be about $23,000,000.

Mr. WALLGREN. Mr. President, will the Senator from North Carolina yield?

Mr. BAILEY. I have not the floor, but I wish to respond to the Senator's question.

Mr. GEORGE. I yield to the Senator from Washington.

Mr. WALLGREN. Under the amendment offered by the Senator from North Carolina, a tax on precious stones and manufactured articles already is provided. Any stone that is manufactured must first be cut; and when it is cut it becomes a manufactured stone, and thereby subject to a tax. On the other hand, a manufacturer of a ring setting would pay a tax on the setting under this amendment. Because a diamond setter sets a diamond into a ring setting, should he be asked again to pay a tax on the finished article, when a tax already has been paid on the mounting and a tax already has been paid on the stone?

Mr. BROWN. That would be covered by the language I read to the Senator from North Carolina.

Mr. GEORGE. There is no manufacturer's tax on jewelry.

Mr. WALLGREN. But the committee amendment provides a tax on precious stones and manufactured articles.

Mr. GEORGE. Not a manufacturer's tax; a retail tax. It is proposed now to make it a manufacturer's tax. But second-hand stones and stones already manufactured will escape the tax.

Mr. BAILEY. The object of my amendment was to impose a manufacturer's tax.

Mr. GEORGE. Yes; I so understand. I confess sympathy with the amendment,

as I see it, but I thought I should state the fact that over $20,000,000 in revenue will be lost unless we impose the rate at 23.3 percent, according to the Treasury estimates.

Mr. BARKLEY. If the Senator will yield, in response to the statement of the Senator from Washington, I desire to say that there is no tax on the manufacturer of precious stones.

Mr. WALLGREN. But such a tax is proposed in the committee amendment.

Mr. BARKLEY. But it is a tax on the retailer, not on the manufacturer; so in no case would the manufacturer pay a tax on a precious stone as such before a local retailer put the stone in a mounting and thereby produced a completed article. So the Senator's suggestion that the tax would already have been paid on the precious stone is not accurate because the amendment provides no tax on precious stones as such from the manufacturer's standpoint.

While I am speaking, if the Senator from Georgia will permit me, let me say that that was shown to the Senate Committee on Finance, and that is why the House Committee on Ways and Means made this a retail tax instead of a manufacturer's tax.

Mr. BROWN. Mr. President, will the Senator yield at that point?

Mr. GEORGE. I yield.

Mr. BROWN. The amendment offered by the Senator from North Carolina would put into the bill language which would levy an importer's tax on goods sold by the manufacturer. I read from page 88:

> There shall be imposed on the following articles, sold by the manufacturer, producer, or importer, a tax—

By putting in the amendment offered by the Senator from North Carolina there would be imposed a tax of 15 percent on the diamond brought into this country by an importer.

The Senator's amendment is lifted out of the retail sales tax section and put into the manufacturer's tax section.

Mr. BARKLEY. Yes; I understand that.

Mr. BROWN. And the tax would be imposed there.

Mr. BARKLEY. I was undertaking to explain why the House committee, the House, and the Senate committee also made an exception of this tax and made it a retail tax instead of a manufacturer's sales tax, on the ground, as the Senator from Georgia has stated, that it is very easy for the retail jeweler who desires to do so—I would not make this statement applicable to all or even to a majority of retail jewelers, but, unfortunately, there are some jewelers in some sections of the country, as we know, who would resort to the device—to purchase the mounting separately and purchase the stone separately, and I have been informed by men who know that in certain sections a local jeweler might go around the corner to someone who would put the stone and the mounting together—he is not a manufacturer; he does not pay any tax—and bring the article back to the retailer, who is not a manufacturer because he has not put it together, who sells it. By that sort of a device they can escape identification to the extent that nobody pays the tax.

Mr. BROWN. I will say to the Senator the tax on both those articles would, under the language on page 88 in the bill, be subject to a tax. It reads:

> There shall be imposed on the following articles, sold by the manufacturer, producer, or importer, a tax—
>
> And the tax is set forth.

Mr. BARKLEY. Of course, that would not apply to second-hand stones which are sold in large quantities either after they get into this country or after they have been produced by somebody.

Mr. BROWN. I say that the tax would be paid once on the article, and that is all that is asked.

Mr. BARKLEY. Of course the main difficulty arises out of the effort to identify and thereby tax the manufactured product as an article of jewelry. A man may buy a watch case and may buy the mainspring and may buy all the parts separately, then put them together as a watch, and sell the watch to the retailer. If he is not required to pay the tax, or if he can escape the tax, as a manufacturer, on the ground that he is not a manufacturer, then, he escapes the tax and nobody pays the tax at all. There will be undoubtedly a great deal of money lost in revenue in that way.

Mr. BROWN. I do not think he could escape the tax unless he violated the law; and I think we can stop that.

Mr. GREEN. Mr. President, will the Senator yield?

Mr. BROWN. I yield.

Mr. GREEN. I understand the amendment suggested by the Senator from Michigan assumes that the sum total of the tax paid on the component parts is to be equal to the tax paid on the finished article. But is that so?

Mr. BROWN. I think the Senator makes a good point. Yes, it is true that the article would be worth probably a little more after it has been assembled.

Mr. GREEN. Would it not be worth a great deal more?

Mr. BROWN. I do not know any way we can get at that except by a retailer's tax. The Senator's amendment is 50 percent higher as a manufacturer's tax than was the retail-sales tax proposed by the bill, and that, it was hoped, would take care of the matter. I inquire if the Senator from North Carolina will accept the language I have suggested?

Mr. BAILEY. I have been looking for an opportunity to do so. Will the Senator yield to me?

Mr. BROWN. Yes.

Mr. BARKLEY. Mr. President, will the Senator permit me to read a paragraph from the testimony so that he may comment on it in connection with this amendment?

Mr. BAILEY. If the Senator will allow me to sit down while he reads, I shall be glad to have him read from the testimony.

Mr. BARKLEY. Certainly. This testimony was given before the committee by a jeweler by the name of Niemeyer. In response to a question propounded by the Senator from Wisconsin [Mr. LA FOLLETTE]:

> Senator LA FOLLETTE. Mr. Niemeyer, why has it proven so difficult to collect this tax in this particular industry?
>
> Mr. NIEMEYER. Because the retailer becomes a manufacturer, and the importing situation is very difficult. For example, diamonds are very difficult for any man to identify as taxable goods. An importer's diamond was taxable and a man who did not import a diamond, who got it second-hand, if you please, his diamond was not taxable. You would have a diamond that might be worth $500 in one case, that was taxable, that had a 10-percent tax on it, and a diamond competing with it that was not taxable. It was very difficult for the Internal Revenue Department to put their fingers on the tax obligation and on the value.

That is the substance of the representation made by the Treasury and by this man who is familiar with the jewelry business as the reason why it was difficult to trace the taxable and the nontaxable article or one that had been taxed and one that had not been taxed.

Mr. BAILEY. Mr. President, I should like to make a brief statement and come to a conclusion of this matter. I am accepting the amendment suggested by the junior Senator from Michigan and desire to have it incorporated in my amendment. I ask leave of the Senate to incorporate the language he has suggested in my amendment.

The PRESIDING OFFICER. Without objection, the amendment will be modified as suggested.

Mr. BAILEY. I wish to say a word about this argument. I want to know who levies the taxes in the United States of America. Is it done by the Treasury Department or is it done by the Congress? I have heard enough about "what the Treasury wants." I grow weary with the talk here about "what the Treasury wants." I know what the Treasury wants. It wants all the money in the United States. We are the representatives of the people; we are elected by the people; we are responsible to the people; and I do not intend to let the head of the Treasury Department or the clerks in the Treasury Department assume the prerogatives vested in me, because they cannot assume the responsibility. If they would go to North Carolina and subject themselves to a vote in North Carolina, I would feel better about it.

They are very good people, very respectable people; the Government is a coordinate government, and I am perfectly willing to work with the executive department; but I am not willing to have the executive department of the United States levy taxes. Taxes are levied by the Congress. Revenue bills originate in the House wholly because that is the popular branch of the Congress, according to the Constitution, and the Members of the House are frequently elected, which is for the purpose of emphasizing their responsibility.

If the Treasury Department officials should talk to me for a thousand years they could not convince me that it would not be less expensive to the Treasury to collect the manufacturer's tax than it would be to inspect all the jewelry stores in the United States. I was once a Treasury official; I had to collect "nuisance taxes," as a collector of customs in North Carolina, in the days of Woodrow Wilson,

and I know what it was. The Treasury is saying, "Why, somebody will beat around this tax." Well, somebody is going to "beat around" every tax we levy. The easiest tax on earth to "beat around" is the sales tax, but the Treasury is not saying anything about that.

I am advocating this tax because it delivers the people from a pestiferous nuisance; I am advocating this tax because it will be easy for the Federal Government to collect it and less irritating to the people; I am advocating it on the ground that it will be more economical to collect it. It is said it would be necessary to make the rate 23 percent wholesale to equal 10-percent tax retail. Well, that is a guess. I heard my friend, the senior Senator from South Carolina [Mr. SMITH], say that whenever he went into a jewelry store he felt like lifting his hands in prayer for help. I wish to say to him he ought to be careful with whom he goes into a jewelry store. To take a very pretty lady into such a store is one thing, but to go in by one's self is all right. I will say that in behalf of my friend from South Carolina.

Mr. President, that is all I have to say about it. The chairman of the committee has said that he is perfectly willing for the Senate to pass on the merits of this matter, and I am sure I am. I have the responsibility upon me, as one of the representatives elected by the people. I have the proper respect, I hope, for the clerks, the agents, the deputies, and whoever they may be in the Treasury Department; but I hope that the Members of the Senate will exercise their judgment, because they were elected to do so and they are going to be held accountable. In the day when they give their accounting they will not be able to find anybody in the Treasury Department with a microscope. So I ask for a vote.

The PRESIDING OFFICER. The question is on the amendment of the Senator from North Carolina [Mr. BAILEY], as modified.

The amendment, as modified, was agreed to.

Mr. GUFFEY obtained the floor.

Mr. BARKLEY. Mr. President——

Mr. GUFFEY. I was going to offer an amendment but I yield to the Senator from Kentucky.

Mr. BARKLEY. Mr. President, after consulting with the Senator from Georgia [Mr. GEORGE], in charge of the bill, I wish to advise the Senate that we hope to sit until we have disposed of the tax bill today. There are a few more amendments, more or less technical in nature. I do not know how long we shall take; but I ask the Senate to sit here until we can finish the bill, so that we may adjourn over at least until Monday, if not until Tuesday. Otherwise, we shall have to have a session tomorrow.

Mr. GUFFEY. Mr. President, I send to the desk an amendment which I ask to have stated.

The PRESIDING OFFICER (Mr. HILL in the chair). The amendment offered by the Senator from Pennsylvania will be stated.

The CHIEF CLERK. On page 70, after line 11, it is proposed to insert the following:

(f) Exemption of school entertainments. Section 1701 of the Internal Revenue Code, relating to exemption from admission tax, is amended by inserting at the end thereof the following new subsection:

(d) School entertainments. Any admission to entertainments conducted by public or parochial elementary or high schools.

Mr. GEORGE. Mr. President, there is already some confusion which I think ought to be cleared up in the exemptions from the admissions tax. I shall be pleased to accept this amendment, so that in conference we may be able completely to iron out the whole situation, if that is agreeable.

Mr. GUFFEY. That is agreeable to me.

Mr. BROWN. Mr. President, before action is taken, if the Senator from Georgia will yield to me, let me say that as the situation now is, with the acceptance of the amendment offered by the Senator from Pennsylvania, about the only matter upon which the conferees could not act would be the exemption of entertainments by religious institutions from the imposition of this tax. In other words, section 1701 as it now is would be entirely eliminated, and we would have an exemption of entertainments by parochial and public schools, agricultural fairs, and certain other kinds of entertainments; but the Senator from Georgia and the other Senate conferees would not have any opportunity to act with respect to a matter in which a good many of us have an interest, and that is the exemption on entertainments by religious institutions.

As the Senator recalls, I moved in the Finance Committee to retain the exemption relative to entertainments for purely religious purposes, and it seemed to me that the only way in which the matter could be left in conference would be to eliminate entirely section (d) on page 69 of the bill. By so doing, the entire subject matter would be open for action by the conferees.

Mr. GEORGE. Mr. President, I should not be averse to that. I think the matter should be considered as a whole.

Mr. BROWN. Then, Mr. President, I move——

Mr. GEORGE. Has the other amendment been adopted?

The PRESIDING OFFICER. The amendment offered by the Senator from Pennsylvania [Mr. GUFFEY] has not yet been adopted.

Mr. GEORGE. Let us act on that.

The PRESIDING OFFICER. Without objection, the amendment offered by the Senator from Pennsylvania is agreed to.

The Senator from Michigan now offers an amendment which will be stated.

Mr. BROWN. I move that subsection (d), relating to termination of exemptions of entertainments by charitable or religious institutions, and so forth, lines 14 to 18 of page 69 of the bill, be stricken out.

Mr. GEORGE. I have no objection to that.

The PRESIDING OFFICER. Without objection, the amendment offered by the Senator from Michigan is agreed to.

Mr. BROWN. I hope that when the conferees consider this subject matter they will give due consideration to retaining the exemption as to admissions to purely religious entertainments.

Mr. HAYDEN. Mr. President, late yesterday afternoon the Senate adopted an amendment offered by the Senator from Connecticut [Mr. DANAHER], which was accepted by the committee, which had the effect of repealing a provision in an appropriation bill which I reported to the Senate, and, as the language now stands, clearly leaves a very difficult situation, in that it makes $62,000,000 available for any purpose. I have talked to the Senator from Connecticut and agreed with him and the committee; and I desire to offer an amendment adding certain words at the end of the Danaher amendment, which is at the end of the bill.

The PRESIDING OFFICER. Without objection, the vote whereby the amendment of the Senator from Connecticut [Mr. DANAHER] was agreed to will be reconsidered. The clerk will state the amendment offered by the Senator from Arizona to the Danaher amendment.

The CHIEF CLERK. At the end of the amendment offered by Mr. DANAHER, it is proposed to insert the following words:

Inserting in said act the words "for the purposes described in the last paragraph of the part of this act relating to the Social Security Board."

Mr. HAYDEN. Mr. President, the language to which I refer now reads:

That in case any State employment service is found unable to render adequate service in connection with the fulfillment of this program, this appropriation shall be available, subject to the approval of such Administrator, for maintenance of special employment facilities and services.

The PRESIDING OFFICER. Without objection, the amendment of the Senator from Arizona to the amendment of the Senator from Connecticut is agreed to; and the amendment of the Senator from Connecticut, as modified by the amendment of the Senator from Arizona, is agreed to.

Mr. HAYDEN. Mr. President, I ask leave to insert in the RECORD a memorandum in regard to this matter, so that when it goes to conference it may be thoroughly understood.

The PRESIDING OFFICER. Without objection, it is so ordered.

The memorandum is as follows:

MEMORANDUM FROM THE SOCIAL SECURITY BOARD REGARDING DANAHER AMENDMENT TO PENDING TAX BILL

The actual effect of the Danaher amendment is far from clear since there would still remain in the appropriation bill the following language:

"*Provided further*, That such portion of this appropriation as may be necessary shall be available to the Social Security Board for all necessary expenses incurred by the Board, including personal services in the District of Columbia."

This is very broad language to be used in connection with an appropriation of $62,500,000.

It is highly desirable that the Danaher amendment be eliminated. However, if it is not eliminated, it certainly ought to be clarified.

It is very essential that the original proviso in the appropriation bill be retained in order that the national-defense program shall not be impaired due to the failure of the public employment office system to function properly. The Social Security Board makes grants to the States covering approximately 95 percent of the cost of administering their unemployment-compensation laws, which cost includes expenditures for the maintenance of a public employment office system. The Board has the power to withhold these grants if there is not proper and efficient administration but if it were not for the language contained in its appropriation bill would have no power to operate directly a public employment office system. This creates a very anomalous and serious situation, particularly because of the absolute necessity for the continuing to operate a public employment office system in every single State as a part of a Nation-wide employment service.

Because of a conflict between the Arizona law and the Federal Social Security Act it has been necessary for the Social Security Board to assume the direct operation of public employment offices in that State. The fact that the Social Security Board kept in mind the State interest in the matter is evidenced by the attached letter which the chairman of the Employment Security Commission of Arizona wrote to the executive director of the Social Security Board. Therefore, there is every reason to believe that the Social Security Board in taking any action necessary to expedite the national-defense program would bear in mind the State's interest.

It should be noted Senator DANAHER was mistaken in his statement that the proviso to which he objects was substituted in lieu of the following proviso which was found in the 1941 appropriation bill:

"*Provided,* That in case any State employment service is found unable to render adequate service in connection with the fulfillment of this program, this appropriation shall be available, subject to the approval of such Administrator, for maintenance of special employment facilities and services."

The foregoing language is also contained verbatim in the 1942 appropriation bill. However, inasmuch as the current rate of expenditure of the Board is in excess of $1,500,000, requiring a reduction in its present operations, the authority granted under that section is of no practical use.

JUNE 12, 1941.

Hon. PAT MCCARRAN,
United States Senate,
Washington, D. C.

DEAR SENATOR MCCARRAN: I appreciate very much your willingness to consider the proviso which I discussed with you this morning. I talked with Mr. Smith, as suggested by you, and he asked me to prepare a brief memorandum for him, which I have done. I am enclosing copy of this memorandum for your information.

Sincerely yours,
A. J. ALTMEYER, *Chairman.*

[Enclosure.]

The members of the Office of Production Management, the Federal Security Administrator, the Secretary of Labor, and the Social Security Board concur in the recommendation that there be included in that section of H. R. 4926 making grants to States for unemployment compensation administration, a proviso to the effect that such portion of this appropriation as may be necessary shall be made available to the Social Security Board for the operation of such employment office facilities and services as are essential to expediting the national-defense program.

Inasmuch as the Federal Government already makes grants which cover practically 100 percent of the cost of administration of unemployment compensation through public employment offices, there would be little if any increase in total cost to the Federal Government, but the Federal Government would have the authority to pay salaries of employees and other expenses of operation directly instead of through grants to the States in any cases where that was deemed necessary. This authority is considered necessary in order to make certain that the 1,500 employment offices shall function effectively and expeditiously as a Nation-wide employment service to meet the increasing labor shortages which are affecting the national-defense program.

Somewhat similar language is already contained in that portion of the bill making an appropriation of $1,500,000 to the Social Security Board for the selecting, testing, and placement of defense workers. However, inasmuch as the current rate of expenditure of the Board is in excess of $1,500,000, requiring a reduction in its present operations, the authority granted under that section is of no practical use.

The President has approved of this recommendation as essential to the national-defense program.

EMPLOYMENT SECURITY COMMISSION OF ARIZONA,
Phoenix, Ariz., July 30, 1941.

Mr. OSCAR M. POWELL,
Executive Director, Social Security Board, Washington, D. C.

DEAR MR. POWELL: On behalf of the Employment Security Commission of Arizona, I wish to express to you our genuine appreciation for the cooperative spirit which has prevailed throughout our recent negotiations to find a way in which to continue the operations of this agency, despite the apparently insurmountable obstacles presented by the provisions of recent State legislation.

Your sincere desire to do everything within your power to aid our State in finding a way out of its dilemma has been reflected, without exception, in the actions and representations of the entire staff of the Social Security Board, which has so conscientiously and competently worked out the details of the arrangement under which this commission has been enabled to continue the payment of benefits to the unemployed of Arizona.

It has been the pleasure of the commission members to work directly with Messrs. Lawson, Dillingham, Mangum, Hunter, Arneson, and Collins, and we have nothing but the highest commendation for the manner in which they have carried out and placed into efficient operation an extremely delicate assignment.

You will, I am sure, be pleased to know that Governor Osborn has expressed himself as gratified by the courteous and friendly attitude of those charged with the administration of the Social Security Board, United States Employment Service, and the competence they have already exhibited in the operation of that agency.

With cordial good wishes, I remain,
Sincerely,
DEAN S. SISK, *Chairman.*

Mr. GEORGE. Mr. President, I have a number of amendments to offer, which will not take very long, if I may proceed with them.

Mr. O'MAHONEY. Mr. President, will the Senator yield to me for a moment?

Mr. GEORGE. I yield to the Senator from Wyoming.

Mr. O'MAHONEY. Mr. President, an examination of the motor-vehicle use tax which has just been adopted shows that it places upon the Post Office Department a great deal of extra work. On a previous occasion, when in the adoption of the Social Security Act, or an amendment thereto, similar work was placed upon the Post Office Department, a provision was adopted whereby the Post Office Department could be reimbursed for the necessary expenditures involved by such increased work. I have discussed with the chairman of the Finance Committee an amendment which I shall propose to make this bill uniform with the other.

I offer the amendment which I send to the desk and ask to have stated.

The PRESIDING OFFICER. Does the Senator from Georgia yield for that purpose?

Mr. GEORGE. I yield for that purpose. There is no objection to the amendment.

The PRESIDING OFFICER. The clerk will state the amendment offered by the Senator from Wyoming.

The CHIEF CLERK. It is proposed to insert, at the proper place in the bill, the following:

The Secretary of the Treasury is hereby authorized and directed to advance from time to time to the Postmaster General such sums as the Postmaster General may show shall be required for the expenses of the Post Office Department in performing, in the District of Columbia and elsewhere, all services required by this section.

The PRESIDING OFFICER. Without objection, the amendment is agreed to.

Mr. GEORGE. Mr. President, yesterday when the Senate was considering the admissions tax I think a number of members of the Finance Committee believed that by disagreeing to the Finance Committee amendments they were restoring the action taken in the Finance Committee before the 15-percent rate was agreed upon. The early Finance Committee action was to impose the tax on all admissions but to exempt children when the amount charged was less than 10 cents. As the bill now stands, all admissions of less than 10 cents are exempt.

On page 68, lines 5 to 8, I ask to reconsider the language contained in those lines; and I move to insert in lieu thereof the following language:

A tax of 1 cent for each 10 cents or fraction thereof, the amount paid for admission to any place, including admission by season ticket or subscription.

Second, I move to insert on page 69, line 1, after the period, the following:

No tax shall be imposed on the amount paid for the admission of a child under 12 years of age if the amount paid is less than 10 cents.

And, third, I move to agree to the committee amendment on page 69, lines 1 to 4, inclusive. That will restore the admissions tax as the House had it with the following exception made by the Finance Committee: A tax would be imposed on the first 10 cents, but in the case of children under 12 years of age, there would be no tax where the amount paid was less than 10 cents.

The PRESIDING OFFICER. Without objection, the amendments offered by the Senator from Georgia are agreed to.

Mr. MCFARLAND. Mr. President, I wish to offer an amendment.

The PRESIDING OFFICER. The clerk will state the amendment.

The CHIEF CLERK. On page 94, it is proposed to strike out lines 21 to 25, in-

clusive, and on page 95, to strike out lines 1 to 4, inclusive, and to insert in lieu thereof the following:

"(b) Beauty parlors, etc.: For the purposes of subsection (a) the sale of any article described in subsection (a) to any person operating a barber shop, beauty parlor, or similar establishment shall be considered a sale at retail; resale by such person shall be subject to tax as a sale at retail, but there shall be credited against the tax payable by such person with respect to such resale the amount of tax paid on the sale to such person.

Mr. GEORGE. Mr. President, the amendment has been considered, and it is not objectionable. It has the effect of considering a sale of cosmetics to local barber shops, so to speak, or beauty parlors, as a retail sale. This is to prevent the annoyance of beauty parlors or barber shops having to keep records to account for this tax.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

Mr. GEORGE. Mr. President, I have a number of purely administrative, technical amendments.

The PRESIDING OFFICER. The clerk will state the first amendment.

The CHIEF CLERK. On page 62, line 16, it is proposed to strike out "and brandy" and before the period in line 20, insert: "," and to strike out "(except brandy)."

Mr. GEORGE. That is a technical amendment.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

Mr. GEORGE. I offer another amendment.

The PRESIDING OFFICER. The clerk will state the amendment.

Mr. GEORGE. The amendment which the clerk will now read is intended to put the tax on brandy floor stocks at $1.25. This is the difference between the rate of $2.75 under existing law and the $4 rate under the bill.

The PRESIDING OFFICER. The clerk will state the amendment.

The CHIEF CLERK. On page 63, line 16, after "$1", it is proposed to insert "(except that in the case of brandy, the rate shall be $1.25)."

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

Mr. GEORGE. Mr. President, I offer another amendment, which speaks for itself. It is intended to make certain that the general news ticker service is classed as part of the general press.

The PRESIDING OFFICER. The clerk will state the amendment.

The CHIEF CLERK. On page 80, lines 6, 7, and 8, it is proposed to strike out "news ticker services furnishing a general news service similar to that contained in the public press."

The PRESIDING OFFICER. In order that the amendment may be considered it will be necessary to reconsider the vote by which the committee amendment on page 80 was agreed to. Without objection, the vote by which the amendment on page 80, line 3, was agreed to is reconsidered, and the question is on agreeing to the amendment offered by the Senator from Georgia to the amendment of the committee.

The amendment to the amendment was agreed to.

The amendment as amended was agreed to.

The CHIEF CLERK. On page 81, lines 11 and 12, after the word "press", it is proposed to insert ", or a news ticker service furnishing a general news service similar to that of the public press,".

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

Mr. GEORGE. Mr. President, I offer another amendment, which I ask to have stated.

The PRESIDING OFFICER. The clerk will state the amendment.

The CHIEF CLERK. On page 101, after line 7, it is proposed to insert:

(d) Credits, and tax free sales of automobile radios: Section 3403 (e), section 3442, section 3443 (a) (1), and section 3444 (a) (1) and (2) of the Internal Revenue Code (relating to tax in case of sale of tires to manufacturers of automobiles, etc., and credit on sale) are amended by striking out "tires or inner tubes" wherever appearing therein and inserting "tires, inner tubes, or automobile radios"; and by striking out "tire or inner tube" wherever appearing therein and inserting "tire, inner tube, or automobile radio."

Mr. GEORGE. Mr. President, under the manufacturers' excise tax title of the Code, when a taxable article is sold for use in the manufacture or production of another taxable article, the first sale is either tax-exempt or a credit or refund is allowed the manufacturer of the second article. The only exception to this is in the case of sales of tires and inner tubes. When they are sold by the manufacturer of tires or tubes to a manufacturer of automobiles the first sale is taxable and on the sale of the automobile, a credit or refund is made on account of the tire or tube to the automobile manufacturer at the rate of tax applicable to automobiles. This is done for the reason that the tire and tube rate (approximately 17½ percent) is higher than the automobile rate. If the sale by the tire manufacturer to the automobile manufacturer were tax-free, the automobile manufacturer would be in effect selling a tire or tube on an automobile which would be taxed at a less rate than the sale of the tire or tube would be taxed if taxed separately.

The proposed amendment makes the same provisions as are applicable in the case of tires and tubes applicable to automobile radios when sold to automobile manufacturers for use in the manufacture of automobiles. The reasons prompting this change are the same as those in case of tires and tubes. Radios are taxed at 15 percent; automobiles at 7 percent. If the sale from radio manufacturer to car manufacturer were tax-free, then when the automobile was sold with the radio in it the rate of tax borne by the radio would be only 7 percent. This amendment proposes to collect that 8-percent difference in tax.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

Mr. GEORGE. I submit another amendment, and before it is stated from the desk, I should like to make a statement.

This amendment is designed first to prevent the distribution of taxable stock dividends out of pre-1941 accumulated earnings and profits from constituting new capital solely because of subsequent operating losses or because of subsequently accumulated but undistributed earnings and profits, and, second, to prevent money or property paid in from constituting new capital if such money or property merely takes the place of pre-1941 accumulated earnings and profits previously distributed after the beginning of the first taxable year which begins after December 31, 1940.

It will be remembered that a liberalizing provision has been made in the bill allowing a credit to those corporations operating on the invested capital basis of $1.25 for each dollar of new capital invested. This is an amendment which is made necessary in order to safeguard and protect the Treasury.

The PRESIDING OFFICER. The clerk will state the amendment.

The CHIEF CLERK. On page 47, line 13, it is proposed to strike out the quotation marks, and, after line 13, to insert:

(F) Reduction on account of distributions out of pre-1941 accumulated earnings and profits: The new capital for any day of the taxable year, computed without the application of subparagraph (E), shall be reduced by the amount which, after the beginning of the first taxable year which begins after December 31, 1940, has been distributed out of earnings and profits accumulated prior to the beginning of such first taxable year.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

Mr. GEORGE. Mr. President, I offer another amendment, which merely strikes out lines 3 to 5, on page 93, which is made proper by the adoption a few moments ago of another amendment.

The PRESIDING OFFICER. The clerk will state the amendment.

The CHIEF CLERK. It is proposed to strike out lines 3 to 5 on page 93, as follows:

(b) Exemption if article taxable as jewelry: No tax shall be imposed under this section on any article taxable under section 2400 (relating to jewelry tax).

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

Mr. GEORGE. Mr. President, I next offer a series of amendments, which I will explain, and I ask that the reading of the amendments be dispensed with.

The effective date of the excise taxes has been changed from so many days after the effective date of the act to a definite date.

The PRESIDING OFFICER. Without objection, the reading of the amendments is dispensed with, and, without objection, the amendments will be printed in the RECORD as considered and as agreed to.

The amendments referred to are as follows:

Page 83, lines 2 and 3, in lieu of the matter proposed to be inserted by the committee amendment, insert "October 1, 1941."

Page 83, lines 11, 12, and 13, strike out "the first day of the first month which begins more than 10 days after the date of the enactment of this act" and insert "October 1, 1941."

Page 83, line 18, strike out "the effective date of this part" and insert "October 1, 1941."

Page 84, line 3, strike out "the effective date of" and strike out lines 4, 5, and 6 and insert "October 1, 1941, and the provisions of such subsection before its amendment by section 548 shall be applicable with respect to the period before October 1, 1941."

Page 84, lines 11 and 12, strike out "the expiration of 5 days after the effective date of this part" and insert "October 5, 1941."

Page 84, line 16, strike out "such effective dates" and insert "October 6, 1941."

Page 84, line 18, strike out "such effective date" and insert "October 6, 1941."

Page 93, lines 7 and 8, strike out "the effective date of part V of title V of the Revenue Act of 1941" and insert "October 1, 1941."

Page 97, lines 5 and 6, in lieu of the matter proposed to be inserted by the committee amendment insert "October 1, 1941."

Page 99, lines 11 and 12, strike out "the effective date of part V of title V of the Revenue Act of 1941" and insert "October 1, 1941."

Page 99, line 16, strike out "the effective date of this part" and insert "October 1, 1941."

Page 101, lines 17, 18, and 19, strike out "the effective date of part V of title V of the Revenue Act of 1941" and insert "October 1, 1941."

Page 106, lines 6 and 7, strike out "the effective date of part V of title V of the Revenue Act of 1941" and insert "October 1, 1941."

Page 106, lines 24 and 25, strike out "the effective date of part V of title V of the Revenue Act of 1941" and insert "October 1, 1941."

Page 113, lines 16, 17, and 18, strike out "the first day of the first month which begins more than 10 days after the date of the enactment of this act" and insert "October 1, 1941."

Mr. GEORGE. Mr. President, I desire to offer one amendment which is not a committee amendment. I wish to be entirely fair with the Senate about it. I wish the Senate to know what I am offering. It will be recalled that in the 1940 Excess-Profits Tax Act we provided for the amortization of new plants and facilities. Among the provisions was one requiring, first, a certificate of necessity, and then a nonreimbursement certificate. That was provided in section 124 (i) of the present Internal Revenue Code; and I am offering this amendment for the purpose of simplifying a condition which has become tremendously confused. Many certificates of necessity have been issued, but those who have gone ahead and made additions to their plants have not been able to secure the second certificate. The Army, Navy, and other interested agencies of Government have been trying to agree on some amendment which would simplify the situation and remove the confusion, but they have not been able to reach an agreement. I wish to offer this amendment so as to leave the matter open for consideration in conference.

Mr. LA FOLLETTE. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. LA FOLLETTE. I wish to plead with the Senator not to offer that amendment. We had the matter up in the committee, as the Senator will remember. As the Senator states, it is in disagreement. It involves a very important question, and we acted in committee to postpone the consideration of this matter until there could be opportunity for hearings, and a chance for the committee and the Senate and the House to understand just what is involved. I plead with the Senator not to press the amendment at this time because it deals with a very important subject. It involves the question of the amortization of hundreds of millions of dollars worth of plants which have been constructed, and I believe that it would be very unfortunate if this action should be taken before there has been an opportunity at least for the committee to go into the question, and to understand exactly what is being done.

Mr. GEORGE. Mr. President, my whole purpose was to have the matter open in conference so that if an agreement were reached——

Mr. LA FOLLETTE. Mr. President, with all due respect to the conference committee—and I have great respect for both the House conferees and the Senate conferees—this amendment involves a matter of public policy which, it seems to me, should not be legislated upon in conference. I plead with the Senator from Georgia not to press that amendment, and to let the matter take its due course when it shall have been properly considered by the Congress, because literally hundreds of millions of dollars have been poured out of the Treasury in the construction of plants, and the whole subject matter is very important from the standpoint of public policy. We threshed the matter out, as the Senator remembers, last year, and now the various agencies administering the law are unable to agree, and that very disagreement, it seems to me, is an indication that there should be full congressional consideration. With all due respect to the members of the conference committee, I suggest that it is a matter of legislation which ought not to be handled in conference exclusively.

Mr. GEORGE. Mr. President, in deference to the Senator's request—he is, of course, one of the useful members of the Finance Committee of the Senate—I will not press the amendment, but he must realize that there is a necessity for clearing up this situation.

Mr. LA FOLLETTE. I agree with the Senator from Georgia.

Mr. GEORGE. Innumerable persons have been asked to invest in new enterprises. They have been given immediately a certificate of necessity, and have gone ahead, but thereafter have been wholly unable to get the second certificate of nonreimbursement, because it is actually impossible for the authorities to issue such a certificate intelligently, and entirely truthfully, in my judgment.

Mr. LA FOLLETTE. I agree with the Senator that the situation should be cleared up, and I shall not put any stone in the way of clearing it up, but because of the importance of the matter I believe it ought to go through the regular legislative channels.

Mr. GEORGE. I will not press the amendment, Mr. President.

The PRESIDING OFFICER (Mr. HILL in the chair). The amendment referred to by the Senator from Georgia is withdrawn.

Mr. GEORGE. Yes; that amendment is withdrawn.

Mr. LEE. Mr. President, I move that the Senate reconsider the vote by which the amendment to protect farm commodities, offered by the Senator from Nebraska [Mr. BUTLER] on behalf of himself and the Senator from Alabama [Mr. BANKHEAD] and the Senator from Mississippi [Mr. EASTLAND] was rejected, and on that motion I ask for the yeas and nays.

The PRESIDING OFFICER. The Senator from Oklahoma [Mr. LEE] moves that the Senate reconsider the vote by which the amendment offered by the Senator from Nebraska [Mr. BUTLER] for himself, the Senator from Alabama [Mr. BANKHEAD], and the Senator from Mississippi [Mr. EASTLAND], was rejected.

Mr. BARKLEY. Mr. President, I have no intention of moving that the motion be tabled, because I am perfectly willing to have the Senate pass on the motion to reconsider, but I hope that it will not be adopted for the reason stated by the Senator from Georgia [Mr. GEORGE] when the amendment was before the Senate awhile ago. After full discussion, the Senate voted upon the amendment, and while the vote was close, the amendment was defeated.

I think it is obvious to every Senator that this amendment really ought not to be put into a tax bill. The House has served notice on us that they will not agree to tariff amendments, and I think we might take it for granted in advance that this amendment would have to go out because the House of Representatives, and its Ways and Means Committee, and uniformly its conferees, have held and taken the position, with some justification, that the House is the tax-originating body of the Congress under the Constitution, and that a tariff bill particularly is within the exclusive province of the House of Representatives to originate.

An amendment such as this, offered on the floor, without the consideration of the committee, gives no one an opportunity to be heard. We postponed today an important amendment adopted by the committee, very largely because it was claimed that no hearing was given to those interested in that amendment. I think that, on the whole, was a wise action on the part of the Finance Committee and the Senate.

Mr. President, no one knows the effect the amendment in question would have if it were adopted, upon our defense program, upon the industries which depend upon the things in question to turn out materials for our defense program. Senators have gone on record on the question already, and, in view of the fact that even if it were put in the bill on the floor unanimously it could not remain in

the bill because of the historic attitude of the House on the subject of putting tariff legislation on a tax bill, I hope the motion of the Senator from Oklahoma will be rejected.

I express that hope for another reason. If we are to open up the bill on the floor, without hearings, and without any investigation, to an amendment proposed at the last minute because it happened to deal with a tariff on something in which someone is particularly interested, we certainly ought to have given an opportunity for anybody else who had a tariff amendment to offer, to offer it and to have it considered by the committee which deals with that subject.

Mr. President, I realize that the Senator from Oklahoma voted against the amendment. He has the right to make the motion, and I am not complaining about that at all. It is entirely proper for any Senator who voted on the prevailing side to move a reconsideration of the vote. However, in view of the certainty that it cannot be retained in the bill finally, and in view of the fact that a vote has already been had upon it, I believe that the Senate should not reconsider the vote.

Mr. LEE. Mr. President, I think 2 years ago the Senator from Texas [Mr. CONNALLY] was the author of such an amendment. We have debated the proposal today. I do not propose to continue the debate. I know what is involved in the amendment, and have fought for it all along.

I ask for the yeas and nays on my motion.

The yeas and nays were ordered.

Mr. RUSSELL. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. RUSSELL. As I understand, the question is on the reconsideration of the amendment of the Senator from Nebraska.

The PRESIDING OFFICER. The question is on the motion of the Senator from Oklahoma [Mr. LEE] to reconsider the vote by which the amendment offered by the Senator from Nebraska [Mr. BUTLER] on behalf of himself, the Senator from Alabama [Mr. BANKHEAD] and the Senator from Mississippi [Mr. EASTLAND] was rejected. Those who favor reconsideration of the question should vote "yea." Those who oppose reconsideration should vote "nay."

Mr. LUCAS. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The Chief Clerk called the roll, and the following Senators answered to their names:

Adams	Byrd	Hayden
Andrews	Capper	Herring
Austin	Caraway	Hill
Bailey	Clark, Mo.	Holman
Bankhead	Connally	Hughes
Barbour	Danaher	Johnson, Colo.
Barkley	Downey	Kilgore
Bilbo	Eastland	La Follette
Brewster	Ellender	Langer
Brooks	George	Lee
Brown	Gerry	Lodge
Bulow	Gillette	Lucas
Bunker	Green	McCarran
Burton	Guffey	McFarland
Butler	Hatch	McNary
Maloney	Rosier	Tydings
Mead	Russell	Vandenberg
Nye	Schwartz	Van Nuys
O'Daniel	Smith	Wallgren
O'Mahoney	Thomas, Utah	Walsh
Overton	Tobey	Wiley
Peace	Truman	
Radcliffe	Tunnell	

The PRESIDING OFFICER. Sixty-seven Senators have answered to their names. A quorum is present.

Mr. RUSSELL. Mr. President, I shall not detain the Senate by any discussion of the amendment. Unfortunately, I was called out of the Chamber a few moments before the vote was taken when the question was first presented and did not have an opportunity to vote.

However, I was impressed by the statement of the majority leader that, without regard to the merits of the amendment, the Senate should vote it down because of the fact that the House would not accept it. I do not think that that is a cogent argument against this amendment or any other amendment. It may be that the House arrogates to itself the right to fix tariff schedules; but certainly the Senate, as a coordinate branch of the Government, has the right, when a tax bill comes to the Senate from the House, to offer, to support, and to send back to the House for consideration any amendment it sees fit relating to taxation, whether it be by way of tariff or otherwise. The fact that some Member of the coordinate branch of the Congress may have served notice that he will not accept any tariff amendment from the Senate is no reason for voting against this proposal.

Mr. BARKLEY. Mr. President, will the Senator yield?

Mr. RUSSELL. I yield.

Mr. BARKLEY. I was merely reiterating one of the very strong arguments made by the Senator's colleague [Mr. GEORGE] when the amendment was before the Senate on its merits.

Mr. RUSSELL. When the Senator from Kentucky refers to my colleague he quotes a very much better authority than he usually does. Nevertheless, I cannot agree with him.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Oklahoma [Mr. LEE] to reconsider the vote by which the amendment offered by the Senator from Nebraska [Mr. BUTLER] for himself, the Senator from Alabama [Mr. BANKHEAD], and the Senator from Mississippi [Mr. EASTLAND] was rejected. On this question the yeas and nays have been ordered, and the clerk will call the roll.

The Chief Clerk proceeded to call the roll.

Mr. HAYDEN (when his name was called). Making the same announcement as before with respect to my pair, I withhold my vote.

Mr. HOLMAN (when his name was called). Making the same explanation of my pair and its transfer which I made on the original vote, I will vote. I vote "yea."

Mr. McNARY (when his name was called). I have a pair with the senior Senator from Tennessee [Mr. MCKELLAR]. If he were present he would vote "nay." If I were at liberty to vote I should vote "yea."

Mr. NYE (when his name was called). On this question I have a pair with the senior Senator from New Jersey [Mr. SMATHERS]. If I were at liberty to vote I should vote "yea." I understand that if the Senator from New Jersey were present he would vote "nay."

Mr. THOMAS of Utah (when his name was called). I have a general pair with the Senator from New Hampshire [Mr. BRIDGES]. I transfer that pair to the Senator from Iowa [Mr. HERRING] and will vote. I vote "nay."

The roll call was concluded.

Mr. HILL. I announce that the Senator from Washington [Mr. BONE], the Senator from Virginia [Mr. GLASS], the Senator from North Carolina [Mr. REYNOLDS], and the Senator from New York [Mr. WAGNER] are absent from the Senate because of illness.

The Senator from Kentucky [Mr. CHANDLER] is absent on a defense-inspection tour.

The Senator from Idaho [Mr. CLARK], the Senator from Iowa [Mr. HERRING], the Senator from New Jersey [Mr. SMATHERS], and the Senator from Arkansas [Mr. SPENCER] are detained on business in various Government departments.

The Senator from New Mexico [Mr. CHAVEZ], the Senators from Tennessee [Mr. MCKELLAR and Mr. STEWART], the Senator from Utah [Mr. MURDOCK], the Senator from Florida [Mr. PEPPER], the Senator from Oklahoma [Mr. THOMAS], the Senator from Washington [Mr. WALLGREN], and the Senator from Montana [Mr. WHEELER] are necessarily absent.

Mr. AUSTIN. The Senator from Pennsylvania [Mr. DAVIS] is absent on official business. He has a general pair with the Senator from Kentucky [Mr. CHANDLER].

My colleague the Senator from Vermont [Mr. AIKEN] is paired on this question with the Senator from New York [Mr. WAGNER]. If present my colleague would vote "yea." He is absent attending a funeral.

The Senator from Indiana [Mr. WILLIS] has a general pair with the Senator from New Mexico [Mr. CHAVEZ].

The Senator from Kansas [Mr. REED] has a general pair with the Senator from North Carolina [Mr. REYNOLDS].

The result was announced—yeas 30, nays 33, as follows:

YEAS—30

Andrews	Caraway	Lee
Austin	Connally	McCarran
Bankhead	Downey	McFarland
Bilbo	Eastland	O'Daniel
Brewster	Ellender	Overton
Brooks	Hill	Peace
Bunker	Holman	Rosier
Burton	Johnson, Colo.	Russell
Butler	Kilgore	Smith
Capper	Langer	Wiley

NAYS—33

Adams	Gillette	O'Mahoney
Bailey	Green	Radcliffe
Barbour	Guffey	Schwartz
Barkley	Hatch	Thomas, Utah
Brown	Hughes	Tobey
Bulow	La Follette	Truman
Byrd	Lodge	Tunnell
Clark, Mo.	Lucas	Tydings
Danaher	Maloney	Vandenberg
George	Mead	Van Nuys
Gerry	Murray	Walsh

NOT VOTING—33

Aiken	Herring	Smathers
Ball	Johnson, Calif.	Spencer
Bone	McKellar	Stewart
Bridges	McNary	Taft
Chandler	Murdock	Thomas, Idaho
Chavez	Norris	Thomas, Okla.
Clark, Idaho	Nye	Wagner
Davis	Pepper	Wallgren
Glass	Reed	Wheeler
Gurney	Reynolds	White
Hayden	Shipstead	Willis

So Mr. LEE's motion to reconsider was rejected.

Mr. TYDINGS. Mr. President, I send to the desk the amendment, which I ask to have stated.

The PRESIDING OFFICER. The amendment offered by the Senator from Maryland will be stated.

The CHIEF CLERK. At the proper place, it is proposed to insert:

Section 533 is amended by adding the following:

(e) Section 2800 of the Internal Revenue Code is amended by adding at the end thereof a new subsection lettered (j) reading as follows:

"(j) The Commissioner shall, upon the filing of a claim therefor, make refund of the distilled spirits tax, imposed by section (a) (1) hereof, at the rate of $1 per proof gallon, to any person who subsequent to the effective date hereof has used distilled spirits, produced in a domestic registered distillery or industrial alcohol plant, in the manufacture or production of an article intended for use for nonbeverage purposes, upon proof by him to the satisfaction of the Commissioner that such distilled spirits (1) were produced in a domestic registered distillery or industrial alcohol plant; (2) were fully tax-paid; (3) were used by him in the manufacture or production of an article intended by him for use for nonbeverage purposes and such article was sold by him for such purposes; and (4) that he has not shifted to others to any extent the burden of that portion of the tax included in such claim for refund. Such claim shall be filed with the Commissioner within 90 days from the date the applicant sells the product for nonbeverage purposes.

"The Commissioner, with the approval of the Secretary, is authorized to make such rules and regulations as may be necessary to carry out the provisions of this subsection."

Mr. TYDINGS. Mr. President, a brief explanation of the amendment is that it is intended to put the increase in tax on products using industrial alcohol which are food products or medicinal products. That is all there is to the amendment.

The Finance Committee, I believe, was inclined to adopt the amendment when it was considered there, but the Treasury Department pointed out that it would be a difficult amendment to administer.

Under the amendment as drawn the tax would be paid, and then the taxpayer would be permitted to file an application for refund if he were able to demonstrate that the alcohol was used either in a food or in a medicinal product.

I have taken up the amendment with the chairman of the committee, have worked it out with the tax experts, and I feel that the amendment has merit, aside from their approval.

Mr. CLARK of Missouri. Mr. President, will the Senator yield?

Mr. TYDINGS. I will yield in a moment. Let me point out first that if a man were to buy $1,254 worth of alcohol the present tax on it would be $21,000. I hold in my hand an invoice showing that such a tax has already been paid.

What I am pointing out is that part of the alcohol used for food products or medicinal products should not be subjected to additional tax, but let the present tax, which Heaven knows, is high enough, stand.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Maryland.

The amendment was agreed to.

Mr. BROOKS. Mr. President, I was unavoidably absent when the amendment with reference to local telephone service was agreed to. I ask unanimous consent that the vote by which the amendment was agreed to be reconsidered.

The PRESIDING OFFICER. The Senator from Illinois asks unanimous consent that the vote by which the amendment with reference to local telephone calls was agreed to be reconsidered. Without objection, the vote is reconsidered.

Mr. BROOKS. Mr. President, I desire to point out briefly that in the State of Illinois alone there are between 900 and 1,000 local independent telephone offices, and I have been beseiged by representatives of a great number of them who ask that we reject the Finance Committee amendment and leave the 5-percent tax imposed by the House. The House imposed a tax of 5 percent on all local calls. The Senate increased it to 10 percent.

These men tell me they are having great difficulty and for a number of years have had great difficulty in holding their subscribers. Their companies are not commercial, in the sense the larger companies are, and they ask that the tax of 5 percent be allowed to stand and that the increase of 5 percent on purely local telephone service be rejected.

I respectfully submit that that should be done by the Senate.

Mr. LODGE. Mr. President, I desire to make a brief statement of my position on the bill as a whole. In common with many Members of the Senate, I cannot give enthusiastic support to the pending measure as a fair, equitable, and just tax act.

The senior Senator from my own State sums up its major defects with these words:

Its revenue yields are insufficient.

It affords no protection against inevitable inflation.

It does not prevent excess profits from direct Government contracts.

The burden of this bill should not be imposed until substantial economies which can admittedly be effected are compelled.

With all this I heartily concur.

In addition, I object decidedly to the encroachment of the Federal Government on the tax resources of the State field, such as the automobile and the gasoline taxes.

I object to the continuous indirect and direct excises and levies on those people who are least able to pay.

I had hoped that governmental policies and taxation could be so conducted that a simple formula might have been designed on a just basis. With this bill, with our tremendous debt, with priorities in materials, and a bureaucratic control of normal business, I fear for the result in the future.

Despite its weaknesses and its faults, I shall vote for its passage solely on the practical basis that the Nation needs the revenue.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment.

Mr. GEORGE. Mr. President, I hope the proposal of the Senator from Illinois will not be accepted by the Senate. The Senate increased the tax on local telephone bills from 5 to 10 percent. The House placed the tax at 5 percent. Therefore, the whole question is in conference, and if there has been any lack of consideration given to it there will be an opportunity in conference to correct it. The Finance Committee increased the House rates and rearranged the section dealing with telephone and telegraph rates, and in line with the policy adopted by the Finance Committee this particular tax was increased. It does not raise a great deal of revenue, but involved in it, as I am advised, is around $5,000,000. Since there will be an opportunity in conference to correct any actual inequity in the matter, I hope the proposal of the Senator from Illinois will not be agreed to.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment.

The amendment was agreed to.

Mr. WALSH. Mr. President, I offer the amendment which I send to the desk and ask to have stated.

The PRESIDING OFFICER. The amendment offered by the Senator from Massachusetts will be stated.

The CHIEF CLERK. On page 123, after line 18, or other appropriate place, it is proposed to insert the following new section:

Amendment to act suspending profit-limiting provisions of Vinson Act.

Section 401 of the Second Revenue Act of 1940 is amended by adding at the end thereof the following new section: "For the purposes of this section a contract or subcontract shall be deemed to be completed on the date on which final delivery and acceptance of the vessel or other article specified therein is made."

Mr. WALSH. Mr. President, the chairman of the Finance Committee and I have conferred in reference to this amendment, and I believe no objection will be offered to it.

Briefly stated, the amendment relates to the act of last year suspending the profit-limiting provisions of the Vinson Act.

There are three alternative positions that can be taken in reference to determining when a contract for a vessel is completed.

The first position that can be taken is when the vessel is turned over to naval officials, uncompleted, for inspection and test.

The second is when the completed vessel is thereafter delivered to the Navy and formally accepted by the Navy. That is what this amendment does. It

fixes completion as the time when the vessel is delivered to the Navy and formally accepted by the Navy.

The third method, which is not involved in this amendment, is when final payment is made.

This amendment seeks to define the word "completed" in the manner named.

Mr. GEORGE. Mr. President, I hardly believe this amendment to be necessary; but I have agreed with the Senator from Massachusetts that a contract certainly cannot be considered as completed as long as some part of the work which the contract requires remains to be done. I think the amendment might well be accepted, so that that question will be settled.

The PRESIDING OFFICER. Without objection, the amendment offered by the Senator from Massachusetts is agreed to.

Mr. GEORGE. Mr. President, I wish to have inserted in the RECORD a brief statement with reference to the majority report made upon this bill by the Finance Committee.

The PRESIDING OFFICER. Without objection, it is so ordered.

The statement is as follows:

STATEMENT BY SENATOR GEORGE

Certain figures in the last two paragraphs on page 41 of the Report of the Committee on Finance on the revenue bill of 1941 are erroneous.

It is desired to substitute for these two paragraphs the following:

"If the accumulated earnings and profits of corporation Y as of January 1, 1942, are reduced to zero due to the stock dividend distribution of $5,000 made on January 2, 1941, and an operating deficit of $5,000 during the taxable year 1941, the new capital includible in equity invested capital as of January 1, 1942, would remain at $5,000 under the application of subparagraph (E), as shown by the following computation:

"New capital as of January 1, 1942, before application of subparagraph (E), $20,000, shall not be more than the excess of $45,000 (total capital on January 1, 1942, before adding 25 percent under section 718 (a) (6)) over $45,000 (total capital on January 1, 1941) less $5,000 (amount by which the accumulated earnings and profits as of January 1, 1941, exceed the accumulated earnings and profits (computed without regard to distributions) as of January 1, 1942), or the new capital cannot exceed $45,000 minus $40,000 ($45,000 minus $5,000), or $5,000."

Mr. GEORGE. Mr. President, I further ask unanimous consent—I think I might as well do it at this time—that in the engrossment of the bill the Secretary of the Senate be authorized to make such changes in section, subsection, and paragraph numbers and letters and cross-references thereto as may be necessary for the proper numbering and lettering of such provisions, and to make such changes in the table of contents of the bill as may be necessary to make it conform to the section headings of the bill.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. BAILEY. Mr. President, I send to the desk an amendment, which I ask to have stated.

The PRESIDING OFFICER. The amendment offered by the Senator from North Carolina will be stated.

The CHIEF CLERK. It is proposed to insert, at the appropriate place in the bill, the following:

SEC. 705. Amendment to section 812, Internal Revenue Code.

(a) Subsection (d) of section 812 of the Internal Revenue Code, relating to the deduction for charitable, etc., bequests, is amended by adding the following new sentence:

"The amount deductible under this subsection shall include any amount falling into a devise or bequest to or for any of the designated objects and uses, as the result of a renunciation or disclaimer of a devise, bequest, or legacy by another beneficiary under the will or a codicil thereto."

(b) The amendment made by subsection (a) of this section shall be applicable, irrespective of whether the decedent died before or after the date of enactment of this act.

Mr. BAILEY. Mr. President, the amendment is technical in character. Its purpose is clarification. I think it squares with the law as it is. I have submitted it to the chairman of the Finance Committee of the Senate, and have said to him that I would not press for it unless it were agreeable to him. I wish it to go in the bill for the purposes of conference. If it needs any changes, the changes can be made there; but the effect of the amendment is this:

The Senator from Georgia will recall our recent conversation about a question which was presented to me. The question is whether there is any possibility of an interpretation of section 812 (d) of the Internal Revenue Code to the effect that the deduction for charitable bequests excludes property passing under a residuary bequest to charity where a specific bequest of the same property has been renounced. For example, a will may provide for a specific bequest to a designated beneficiary, the residue to go to charity. The designated beneficiary renounces the bequest, it thereupon falls into the residuary bequest to charity, and, as a result, the amount actually going to charity under the will is increased.

I have examined the present law myself and am convinced that section 812 (d) is applicable to the entire amount passing to charity. At the same time, it may be well to have the statute clarified and to provide specifically for this situation. Accordingly, I have offered an appropriate clarifying amendment, interpreting the present law. I urge the chairman of the Committee on Finance to accept it.

I shall be glad to hear from the chairman of the committee in regard to this matter.

Mr. GEORGE. I will repeat to the Senator from North Carolina that I see no necessity for the amendment. It seems clear that the situation he has described is adequately covered by the present law and that the entire amount of the funds ultimately going to charity under the will falls within the deduction under section 812 (d). Since I have not had an opportunity to examine the matter fully, however, I think we should accept the amendment so that we can study the problem further. If we become satisfied that the amendment is not necessary, the amendment can be rejected in conference. However, if further study indicates that there is a possible ambiguity in the statute, I shall urge the acceptance of the amendment in order to eliminate all possibility of a contrary position. Whether the decedent died before or after the adoption of the amendment, there should be no doubt as to the complete deduction under the present law. The donor to the charity is in fact the giver of the legacy to the charity.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from North Carolina [Mr. BAILEY].

The amendment was agreed to.

Mr. BAILEY. Mr. President, I offer another amendment which I send to the desk and ask to have stated.

The PRESIDING OFFICER. The amendment offered by the Senator from North Carolina will be stated.

The CHIEF CLERK. At the appropriate place in the bill it is proposed to insert the following:

SEC. —. Nonrecognition of gain in certain debt settlements.

Section 111 (c) of the Internal Revenue Code is amended by adding at the end thereof the following:

"In the case of any agreement between debtor and creditor under which property (other than money) is transferred or surrendered by the debtor to the creditor in satisfaction of the debtor's obligation, no gain shall be recognized to the creditor under this chapter or any prior revenue act. Wherever the preceding sentence is applicable to prevent the recognition of gain, the basis of such property in the hands of the creditor shall be the same as the basis in the creditor's hands of the obligation so satisfied."

Mr. BAILEY. Mr. President, this amendment also is technical. I have submitted it to the chairman of the Committee on Finance, and have stated to him that I would not press if he thought it were improper. What I wish is to get it to conference in order that it may be considered there. The purpose of it is to permit the payment of a debt in property—to be sure, not property more than the debt, but property reasonably adjusted to the debt. If I am a debtor, and somebody pays me in property, I really make no gain.

That is the effect of the amendment. I shall be glad if the chairman of the Finance Committee will comment on the matter.

Mr. LA FOLLETTE. Mr. President, I do not desire to interpose against the statement of the chairman of the committee, but I should like to make a general statement at this stage of the proceedings.

There are hundreds, if not thousands, of technical amendments to the tax structure, many of which have considerable merit. When the bill was under consideration in the Ways and Means Committee, that committee took the position that they would not consider, no matter what their merit might be, any administrative amendments which did not bear directly upon the substantive changes contemplated by the bill under consideration.

When the measure came to the Senate, the Committee on Finance, having been advised of the position taken by the

Ways and Means Committee, and realizing full well that the conferees on the part of the House would be very reluctant to consider any administrative changes which they had not had under consideration, adopted a resolution to the effect that the Finance Committee would follow the same rule.

Whether that was right or wrong, that is the position the Finance Committee took. I had many matters brought to my attention which I thought had great merit, but I did not bring them before the Finance Committee because I presumed that the policy of the committee would be to adhere to that position. For instance, the matter suggested by the able Senator from Colorado, upon which I think there is unanimous agreement that action should be taken, was brought by me to the attention of the committee. The staff of the Joint Committee on Internal Revenue Taxation, and, so far as I know, every member of the Committee on Finance, believed that that was a sound proposition, and that something should be done about it, but we deferred that, along with hundreds of other technical amendments, until such time as the technical amendment bill could be taken up for consideration.

I should be the last to object to the Senate considering any proposition it desired to consider, but I wish to clear my own skirts, because, as I have said, many propositions were brought to my attention which I thought had great merit, and had I known that the committee was going to adopt the rule to which I have referred only in order to violate it when the bill reached the floor, I should have insisted that there be consideration of the matters which I felt had merit.

I wish to say that, while I am not inveighing against the amendment offered by the very able Senator from North Carolina, so far as its merit is concerned, if at this late stage of the proceedings we are to enter upon the business of revising the administrative matters which need attention in the revenue structure, we might just as well forget passage of the bill this week or next week, or this month or next month, because there will be many hundreds of amendments which are as meritorious as any which have thus far been considered in violation of the policy adopted by the committee.

Mr. BAILEY. Mr. President, I should like to have a statement from the chairman of the Committee on Finance, especially in view of the protest, very respectful, to which I do not object. But I did not think we were placed in such a position that we could not offer amendments of the type of that I have offered, and I did not offer this amendment until I had shown it to the chairman of the Committee on Finance.

Mr. GEORGE. Mr. President, the committee did at an early date in the hearings decide that it would not take up purely administrative or technical amendments which did not relate directly to some change which had been made in relation to the bill.

In some instances an administrative amendment such as the one offered a little while ago by the Senator from North Carolina seemed to me to be an amendment of substance, and not purely administrative. The amendment now offered has some of the same characteristics. I have tried to be consistent in not offering administrative amendments. I did not have any success in dissuading the able Senator from Colorado, because he offered his amendment anyway, and it was finally accepted. I did try to dissuade him as well as I could. I believe that under the circumstances it would be better for the Senator from North Carolina not to press his amendment.

Mr. BAILEY. Mr. President, agreeable to the statement with which I began, I shall readily withdraw the amendment, in accordance with the suggestion of the chairman of the Committee on Finance.

Mr. ADAMS. Mr. President, there are many of us who have not had the privilege of attending the sessions of the Committee on Finance, not being members, though very much interested in sound fiscal legislation. I do not feel that we are trespassing upon the proprieties if an amendment is offered which is conceived to be a meritorious amendment, even though it should be of a type which the committee itself thought they would not offer. I think that the amendment I offered was entirely wise. More than that, I think it is almost necessary. I do not believe that amendments from the floor on the part of those who have not had the opportunity of participating in the committee deliberations should be blacklisted because of some rule which the committee made for its own regulation.

Mr. LA FOLLETTE. Mr. President, I am certain there was nothing in anything I said which would justify the remarks just made by the Senator from Colorado. I wish to say that the action of the Senate in accepting the administrative amendments certainly places members of the Finance Committee, in view of the action taken by the committee, in a very anomalous position, because the committee once having decided that it would not consider this type of amendment, it became necessary for many members of the Committee on Finance to inform persons who came forward with perfectly legitimate, sound amendments, that the committee had decided that they would not give them any consideration in view of the action of the House, and in view of the fact that there was to be another bill which would deal exclusively with administrative changes.

I simply desired to state, for the information of the Senate, why it was that the Committee on Finance did not consider such amendments, no matter how meritorious they may have been, in order that those whom, as an individual, I had informed that the committee would not give any consideration to these amendments, might understand that the Senate had reversed the committee. The Senate always has the right to do that, because, of course, a committee is only the creature of the body which creates it, in this case the Senate itself.

Mr. GEORGE. Mr. President, I think that, generally speaking, it will be found on scrutiny of the bill that we have adhered to this general policy. I can fully appreciate the desire of many Members of the Senate to offer amendments. Several have been suggested to me which I should like to offer, but I am withholding them. They are administrative in character, and since we are promised another bill very shortly in which such amendments to the law may be made, I think it well not to open the gate any wider.

There is one other amendment which I have to offer, in view of the action taken by the Senate in imposing a manufacturer's sales tax upon jewelry. It becomes proper to impose a floor-stock tax upon jewelry.

The PRESIDING OFFICER. The clerk will state the amendment.

The CHIEF CLERK. It is proposed to insert at the proper place the following:

Upon articles subject to tax under this paragraph which, on October 1, 1941, are held for sale by any person there shall be levied, assessed, collected, and paid a floor-stocks tax at the rate of 15 percent of the price for which such articles are sold, in the ordinary course of trade, by manufacturers or producers thereof, as determined by the Commissioner.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment was agreed to.

The PRESIDING OFFICER. The bill is open to further amendment. If there be no further amendment, the question is on the engrossment of the amendments and the third reading of the bill.

Mr. LA FOLLETTE. Mr. President, I do not wish to offer any further amendment, but I find myself in such a position that I cannot support this bill, and, therefore, although I would naturally be afforded a position on the conference committee, being of such rank in the minority representation on the Finance Committee, I beg to be relieved of such duty, since I cannot support the bill, nor can I support the amendments adopted by the majority of the committee and the amendments adopted by the Senate. In justification for this extraordinary position which I take, I ask unanimous consent that the individual minority views which I filed on the bill be printed in the RECORD at this point in body type as a part of my remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.

The individual minority views of Mr. LA FOLLETTE (pt. 3, Rept. 673) are as follows:

PART I. INTRODUCTION

The pending revenue bill as reported to the Senate is a vicious assault on the rank-and-file taxpayer. It is inadequate, inequitable, and, in my opinion, indefensible. It conforms to no standards of justice or fairness. It "soaks" the poor while confirming, protecting, and entrenching the corporate wealth and power engendered by the defense program. It levies the major share of the costs of "all-out" defense on those who have the least property to protect and those who have the least ability to pay.

The bill is a hodge-podge of inconsistencies, with no underlying principle of taxation whatsoever, except that like many previous tax bills, it "plucks the goose that squawks the least." Unfor-

tunately, the small individual taxpayer who will dig deep into his pockets to pay these bills has not made himself heard.

TAX YIELD INADEQUATE

Although the committee tax bill is the largest in our history, it is no answer to the present urgent fiscal situation. The $3,600,000,000 are hopelessly inadequate in the face of a fifty- or sixty-billion-dollar defense program, a $49,000,000,000 national debt, and a probable deficit this fiscal year, over and above this tax bill, of more than $10,000,000,000.

The proposed patchwork on the present faulty tax structure and the hiking of present rates are not a solution to the Government fiscal problems. It is not commonly appreciated that defense spending has created an extraordinary situation which must be met by extraordinary taxation not only as to degree of taxation but also as to kind of taxation. No doubt taxes must be heavier; but, more than that, they must be revised so as to be more equitable and to conform to the present situation.

EXCESS PROFITS

The Government is pumping billions of defense dollars into our industrial structure. Huge profits are accruing to industry. Generally speaking, the initial and primary beneficiaries are the corporations. It is not punitive taxation—it is just good common-sense fiscal policy supported by expert economic, as well as layman, logic—that a lion's share of all excess and defense profits be siphoned back into the Government Treasury. To the extent that such profits are diverted from the general income stream, the dangers of inflation are accordingly reduced.

The excess-profits tax should be a major item in our tax structure. Such a tax in the fiscal year 1920 yielded about 45 percent of total Federal revenues. In the fiscal year 1942 the excess-profits tax will provide less than 7 percent of total Federal revenue. Even with the full-year effect of the changes proposed now, less than 15 percent of total revenues will be derived from the excess-profits tax. Of course, substantial increases have been made and further increases are proposed in the corporate normal tax and surtax rates, but the entire corporate share of taxes is still far below the World War proportion. Furthermore, in periods of abnormal profits the corporate-tax burden is not as equitably distributed by normal income taxes and surtaxes as by an excess-profits tax.

LOWERED INCOME-TAX EXEMPTIONS UNJUSTIFIED

There is no justification whatsoever in dipping further into the poor man's income—whether by hidden excise taxes or lowered income-tax exemptions—if and until adequate excess-profits levies are made by the Government.

During the Senate debate on the Second Revenue Act of 1940, on September 13, I commented as follows:

Taxation levied without regard to ability to pay and falling heaviest on those with least ability to pay has been increasing constantly. Such was the case when we considered the first tax bill during the present session of Congress. That bill further increased the inequity of our tax structure. It dumped a heavier burden on the backs of the plain people of the country in the form of increased taxes levied without regard to ability to pay. Prior to the enactment of the first revenue bill of the present session of Congress, almost $400,000,000 was collected annually from the manufacturers' excise taxes, which are, in the last analysis, passed on largely to the consuming public. The bill which we passed in June increased these nuisance taxes by more than $140,000,000.

The bill as passed in June increased corporate taxes only 17 percent, as compared with a 35-percent increase in the yield of excise taxes and a 37-percent increase in the yield of individual income taxes.

I have been an advocate of broadening the base of the income tax, in the hope that increased revenue derived from taxation levied in accordance with ability to pay would enable us to shift some of the crushing burden of indirect nuisance taxes, which are levied without regard to the ability of the taxpayer to pay, on to the sound principle of graduated taxes.

But, Mr. President, as I stated during the debate on the revenue bill passed in June, I saw absolutely no justification for a broadening of the income-tax base at the same time excise taxes and direct taxes were increased by such enormous percentages.

On June 19, 1940, I said in debate on the floor of the Senate:

As the chief advocate in this body in past years for broadening the income-tax base, I must now state that I consider it is a gross inequity to the low-income taxpayers to ask them to increase their taxes, and at the same time fail to ask the corporations, which are going to be vastly enriched by the necessity for national rearmament, to carry their fair share of the load, according to their ability.

Now, 15 months later, the situation is even worse.

Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, writing in Fortune magazine for August 1941, states the entire thought well in these words:

During the emergency the excess-profits tax should, in my opinion, be the keystone of a well-balanced tax program. Increased taxes, however, should not be imposed on the great numbers of small business concerns and on millions of individual taxpayers until they have been given every reasonable assurance that the funds they are being asked to provide will not go to swell the profits of wealthy individuals and corporations.

GENEROUS TREATMENT FOR ESTATES AND GIFTS

The singularly harsh treatment accorded the low-income taxpayer under the committee bill is entirely reversed when dealing with the wealthy taxpayer bequeathing huge estates and gifts. Exceptionally generous exemptions of $40,000 are allowed—53 times as great as the exemption for a single man under the income-tax recommendation—and only moderate rates are applied. Although the Treasury Department proposed to lower these exemptions to $25,000, neither the House Ways and Means Committee nor the Senate Finance Committee would concur.

ROBERT M. LA FOLLETTE, SR., IN 1917

In August 1917, 24 years ago, when the Senate of the United States was debating the first real World War revenue bill, my father made an energetic and dramatic fight for a fair and adequate tax program. Recently, when rereading the minority report he submitted to the Senate, I was highly impressed by the following excerpts from his remarks. In my opinion, they are noteworthy of attention in conection with the present bill. They are as true now as they were true then.

He was championing a new tax theory—the Federal income tax was only 4 years old—when he said:

Complicated as is the subject of public finance, there are certain principles and certain truths underlying the science that are self-evident. Among these is the principle that the burden of taxation should be apportioned among the taxpayers in accordance with their ability to pay. Another is that income or profits constitute if not the best, at least one of the best standards by which to measure ability to pay * * *. We must look to the income tax and the war-profits tax to maintain the credit of the Nation and make it possible for our people to bear the awful burdens of this war.

In answer to those who would impose but moderate rates on excess profits—and there are some who take the same position on this bill—my father used these words:

To advocate low rates at present on war profits, with a view to leaving a margin for a later day, is to leave out of sight the fact that this prolific source of revenue will automatically disappear with the end of the war and that the opportunity to tax each year's profits passes with the year. Failure to draw on this source to the fullest possible extent while the war lasts will therefore result in throwing a much larger burden of taxation upon the people and the normal industries of the country at a time when the easily made war profits will no longer be available, and when business of the country will be staggering under the burden of readjustment.

To those apprehensive of the effects of a stiff excess-profits tax he directed these words:

Neither the war-profits tax nor the income tax is a levy on capital. Both of these taxes are levied upon extraordinary and unusual profits. Even if they absorbed the greater part of the profits of individuals such taxes would not in any way affect the income of the same individual the next year. The capital remains. The tax does not impair the earning power of that capital.

With respect to excise and nuisance taxes, he wrote:

It is monstrously unfair to tax the everyday necessaries of the average man and woman to pay the expenses of this war, in addition to commanding their services, and the lives of many of them, and of their children, so long as the above-mentioned swollen and abnormal profits are not taken—profits which the war has created and which will disappear as soon as the war ends. Every dollar of the above profits can be taken and still the enormous peacetime profits of these and other great corporations will not be touched. * * * Will anyone contend that the necessaries of the poor shall be taxed so long as these enormous war profits remain as a source of revenue?

He added these prophetic words about excise taxes:

Once we admit that excise taxes of this sort are to be levied at all at this time, we will find them mounting with every increasing tax levy. * * * These taxes will endure after the period of the war. * * * Later, it will be these consumption taxes upon the necessaries of life that will be drawn upon to meet the needs of the Government. It is both unjust and unwise.

PART II. THE TAX STRUCTURE: PAST, PRESENT, AND PROPOSED

PRESENT TAX STRUCTURE COMPARED WITH 1917–20

In many respects the present fiscal situation is directly parallel with the World War tax problems two decades ago. The war then and the defense program now have entailed unprecedented governmental expenditures which in turn require unprecedented general taxation. Production and profits have soared. Just as in World War No. 1, the Government is struggling to bolster the Treasury revenues by imposing new taxes.

Of course, we have grown—about 30,000,000 in population. Our production has doubled and our national income has almost doubled. But the tax picture is much the same, with perhaps this single exception: Our national debt stood at one and one-quarter billion dollars in 1917. It is 40 times as great now. This backlog of debt in the present picture more than counterbalances the exigencies of actual war in the past picture.

Most everyone will agree that the Government fiscal policies and tax program in the last World War were shockingly inadequate. The war-tax policies—or lack of policies—permitted the accumulation of unconscionable profits for individuals and corporations. The war-tax policies failed to arrest inflation. Whatever other shortcomings existed, it is clear that the Government erred on the side of insufficient taxation of war profits.

Despite the gross inadequacy of the tax structure in the World War, how does it compare with the present tax structure?

Table 1, below, is an abbreviated statement of internal-revenue receipts for the 1920 and 1942 fiscal years, based on estimates of the Treasury Department. The table shows that the over-all tax load has increased about 70 percent—supported, of course, as previously mentioned, by a larger population, a larger production, and a larger national income.

The most significant facts to note from the table are that excise taxes have almost tripled and individual taxes have more than doubled while corporation taxes are yielding only slightly more revenue than in 1920. It is significant to note, too, that the bulk of present corporate taxes is being derived from the income tax instead of the excess-profits tax as in 1920.

All indications are that the next few years will be banner profit years for most corporations. Yet, in the fiscal year 1942, corporations will bear only about 36.3 percent of the Federal tax load, as against 56.7 percent borne in 1920.

TABLE 1.—*Internal-revenue receipts by major categories—Estimated receipts in present fiscal year under present law compared with 1920 tax receipts*

[Millions of dollars]

	1920 [1]	1942 [2]
Total	5,736	9,724
Corporation taxes	3,252	3,535
Income [3]	653	2,627
Excess profits	2,506	679
Other [4]	93	229
Individual taxes	1,232	2,529
Income [3]	1,128	2,078
Estate and gift	104	451
Excise and pay-roll taxes	1,252	3,660
Tobacco and liquor	435	1,563
Manufacturers' excises	268	676
Other miscellaneous taxes	549	429
Social security, etc		992

[1] Fiscal year reports of the Government for 1918–24 do not show separately the various categories of income-tax collections. Hence, the calendar year income basis as reported in the Treasury Department's Statistics of Income is used here.

[2] Treasury Department estimates as revised June 1, 1941.

[3] Include a relatively small amount collected from back taxes.

[4] Includes the capital-stock tax and the declared-value excess-profits tax.

RECENT TRENDS IN FEDERAL TAXATION

Despite all the vaunted statements in recent years in behalf of taxation based on the principle of ability to pay, it is a hard, cold fact that the Federal tax structure has steadily become and more regressive and more and more burdensome to the common man. Tables 2 and 3 are clear-cut proof of the trend in the last 15 years.

As shown by table 2, excise taxes have steadily grown. In the fiscal year 1940 the total collected in this manner was almost fivefold that collected from the same source in 1927. Despite the fact that the aggregate tax burden had increased almost 85 percent in 1940 over 1927, corporations in 1940 fiscal year paid a less dollar amount in taxes in 1940 than in 1927.

As shown by table 3, corporation taxes comprised about 46 percent of total revenues in 1927; 40 percent in 1932; 26 percent in 1937; and only 24 percent in 1940. On the other hand, excise and pay-roll taxes constituted about 19 percent of total Federal revenues in 1927; 29 percent in 1932; 44 percent in 1937; and 51 percent in 1940. Even with the exclusion of social-security taxes, the percentages of the latter 2 years are high—38 and 35 percent, respectively.

TABLE 2.—*Internal revenue receipts by major categories—Receipts in fiscal year 1927, 1932, 1937, and 1940*

[Millions of dollars]

	1927	1932	1937	1940
Total	2,866	1,558	4,653	5,303
Corporation taxes	1,317	630	1,219	1,276
Income [1]	1,308	630	1,057	1,117
Other [2]	9		162	159
Individual taxes	1,011	474	1,397	1,346
Income [1]	911	427	1,092	986
Estate and gift	100	47	305	360
Excise and pay-roll taxes	538	454	2,037	2,681
Tobacco and liquor	397	407	1,146	1,232
Manufacturers' excises	67		451	447
Other miscellaneous taxes	74	47	175	170
Social security, etc			265	832

[1] Includes a relatively small amount collected from back taxes.

[2] Includes the capital-stock tax and the declared-value excess-profits tax.

TABLE 3.—*Percentage distribution of internal-revenue receipts by major categories, fiscal years 1927, 1932, 1937, and 1940*

	1927	1932	1937	1940
Total	Percent 100.0	Percent 100.0	Percent 100.0	Percent 100.0
Corporation taxes	46.0	40.4	26.2	24.1
Individual taxes	35.3	30.5	30.0	25.4
Excise and pay-roll taxes	18.7	29.1	43.8	50.5
Excluding social security			38.1	34.9

The preceding tables illustrate well the comparative trends as between corporation taxes and excise taxes. It is somewhat difficult, however, from those tables to discern the comparative trends between individual and corporate taxes because both have become a relatively smaller part of total Federal revenues while excise taxes have skyrocketed.

An interesting comparison on a different basis can be made from a table adapted from the 1940 Annual Report of the Treasury Department, in which Federal tax liabilities are estimated under certain assumed conditions. For one set of estimates, column 1, it is assumed that the tax structure of May 1932 is in effect in the calendar year 1941—that is, at that level of income; column 2 is under the assumption the tax structure of July 1932 is in effect; column 3, the tax structure of December 1940.

As can be observed from the following table and the percentages calculated therefrom, Federal taxes on individuals have increased substantially more than on corporations. The Revenue Act of 1932 was especially bad in this respect.

TABLE 4.—*Estimated Federal tax liabilities [1] for calendar year 1941, based on the tax structures of (1) May 1932, (2) immediately following the passage of the Revenue Act of 1932, and (3) December 1940 (tax base assumed to be independent of tax structure)*

[In millions of dollars]

Tax group	Under laws— (1) Of May 1932 immediately preceding the passage of the Revenue Act of 1932	(2) Of July 1932 immediately following passage of Revenue Act of 1932	(3) Of Dec. 31, 1940
Individual income, estates, and gifts	594	1,308	2,230
Corporate income and profits	1,277	1,594	3,723

[1] Source: 1940 Annual Report, Treasury Department, p. 3.

TABLE 5.—*Percentage increases—tax structure after Revenue Act of 1932 compared with structure immediately preceding and tax structure of December 1940 compared with each*

	Percentage increase (2) over (1)	Percentage increase (3) over (1)
Individual income, estates, and gifts	Percent +120	Percent +275
Corporate income and profits	+25	+192

YIELDS OF THE PRESENT TAX STRUCTURE COMPARED WITH YIELDS UNDER THE PROPOSED COMMITTEE BILL

To complete this series of comparisons made on the basis of the relative burden on the various kinds of taxpayers a comparison should be made of the present tax structure and the structure as it will be under the committee bill. Tables 6 and 7 make that comparison on a basis comparable with previous tables.

It should be noted that both sets of estimates on table 6 are based on fiscal year 1942 level of income and that both are hypothetical years in that they represent full-year effects. In such respect they differ from estimated actual receipts (as shown on table 1). For example, about $679,000,000 will be collected in excess-profits taxes in the fiscal year 1942. However, the full-year tax liability on 1942 levels of income would be $1,026,000,000. Similarly, under the proposed bill, the hypothetical full-year effect is estimated to be $2,156,000,000 from excess-profits taxes, but, according to the Treasury, only about 45 percent of the additional amount under this bill would be collected in the next fiscal year.

An examination of tables 6 and 7 shows that an inordinate increase is proposed in individual income taxes contrasted with corporation taxes; in fact, the corporate share of total Federal taxes is actually reduced from 40.4 percent of the total to 39.6 percent. The share to be borne by individual taxes is increased from 25.7 to 28.5 percent. Excluding the social-security tax (which as yet has not been increased), the share borne by excise taxes is increased from 24.7 to 25.0 percent.

TABLE 6.—*Internal-revenue receipts by major categories—estimated receipts under present law compared with estimated receipts under Finance Committee bill (hypothetical full-year yields at levels of income estimated for fiscal year 1942)*

[Millions of dollars]

	Present law [1]	Under new bill [2]
Total	10,793	14,486
Corporation taxes	4,359	5,738
Income [3]	3,099	3,363
Excess profits	1,026	2,156
Other [4]	234	219
Individual taxes	2,774	4,129
Income [3]	2,323	3,520
Estate and gift	451	609
Excise and pay-roll taxes	3,660	4,619
Tobacco and liquor	1,563	1,701
Manufacturers' excises	676	966
Other miscellaneous taxes	429	960
Social security, etc	992	992

[1] Differs from estimates of receipts in 1942 fiscal year insofar as the full effects of the 2 revenue acts on 1940 are not reflected in the fiscal year estimates of come and excess-profits taxes, etc. Compare with 1942 fiscal-year estimates under present law in table 1.

[2] Assuming that all provisions of the law were fully reflected in receipts for an entire year.

[3] Includes a relatively small amount collected from back taxes.

[4] Includes the capital-stock tax and the declared-value excess-profits tax.

TABLE 7.—*Percentage distribution of estimated internal revenue receipts by major categories—Fiscal years 1920, 1942, and hypothetical full-year yields at 1942 levels of income under present law and under new bill*

	1920 [1]	1942 [1]	Hypothetical years	
			Present law	New bill
Total	*Percent* 100.0	*Percent* 100.0	*Percent* 100.0	*Percent* 100.0
Corporation taxes	56.7	36.3	40.4	39.6
Individual taxes	21.5	26.0	25.7	28.5
Excise and pay-roll taxes	21.8	37.6	33.9	31.9
Excluding social security	----------	27.4	24.7	25.0

[1] See footnote on table 1.

All of these statistics merely go to prove two facts which are almost self-evident without a recital of detailed statistics:

1. The present tax structure is inequitable.

2. The committee bill will make it worse.

PART III. DEFECTS IN THE COMMITTEE BILL IN THE TAXATION OF EXCESS PROFITS

In my opinion, the most serious defect of the committee bill is the failure to tax excess profits adequately or fairly. Despite persistent and cogent recommendations of the Treasury Department that the entire method of taxing excess profits be overhauled, the committee bill makes no fundamental corrections in the present law, nor even recognizes the shortcomings evidenced during the first year of operation.

Corporations prosperous during the base period are still not required to pay taxes commensurate with their ability to pay and commensurate with a fair and reasonable rate of return. Other corporations which have profited very substantially, and directly, from Government spending are not contributing their fair share.

PREVIOUS EFFORTS TO SECURE AN ADEQUATE TAX

Last year, during the consideration of both the first and second Revenue Acts of 1940, I made a strenuous effort to gain congressional approval of an excess-profits tax based solely on invested capital. Although the Senate approved my plan, 41 to 31, in June 1940, it was eliminated in conference with the declaration that an excess-profits tax would be enacted later. A miserable compromise tax plan was adopted a few months later. In September when the bill was under consideration by the Senate, I submitted a minority report explaining my opposition to the compromise excess-profits tax.

The objections I raised then are applicable now, with greater force. I quote at length from the report because I believe the arguments are unanswerable—in fact, already vindicated in many respects after 1 year's operation under the present law:

> The Finance Committee has reported a highly objectionable tax bill to the Senate. * * * It violates every principle of sound tax theory.

THE BILL IS BASED ON A CONFUSED AND UNSOUND THEORY OF EXCESS PROFITS

The President, in his message to Congress on July 1, 1940, urged that Congress enact an excess-profits tax to help pay for the defense program because, "it is our duty to see that the burden is equitably distributed according to ability to pay so that a few do not gain from the sacrifices of the many." Yet this bill is not based on any principle of ability to pay. Apparently it intends to tax merely the extra profits due to the defense expenditures—"defense profits" rather than "excess profits."

The so-called earnings method of the bill is supposed to measure defense profits directly. Earnings in the taxable year are compared with earnings in the base period and the increase, if any, is called excess. Two basic assumptions are involved which are not true in a large percentage of cases: First, that the earnings during the base period are normal. Second, that the increase is excess or due to defense expenditures. Actually, with respect to the former, a base period that is normal for corporations as a whole is almost invariably abnormal in varying degrees for corporations individually. With respect to the latter, there is no reasonable assurance that the increase is excess, or due to defense expenditures.

Witness after witness testified before the Ways and Means and Finance Committees that their earnings were abnormal during the base period or that increased earnings had nothing whatsoever to do with the defense program. Obviously, the bill exempts large amounts of defense profits and taxes large amounts of nondefense profits without any recognition of the sound principle of ability to pay.

Furthermore, there is no satisfactory way of distinguishing between defense profits and other profits. No chemical test can be applied to make a precise separation. Dollars lose their identity when flowing through the economic system. Products which have an important use in the defense program may have a simultaneous important use in normal industrial activity. Paint for a battleship is the same as paint for industrial machinery. Shoes for the Army are the same as shoes for the farmer. Even with complex accounting systems no satisfactory separation of profits can be made. Surely no rule-of-thumb method of comparing profits in the taxable year with profits during some previous years affords an adequate separation.

The most serious defect in the bill from the standpoint of tax theory is the attempt to combine two opposing theories of taxation in one bill. The net effect is to include the shortcomings of both without the advantages of either. The loopholes in the bill are doubled. The revenue yield is reduced well below what might be obtained under either method separately. The situation becomes a "heads you win, tails I lose" proposition for the Treasury. In addition, highly inequitable situations are created among competitive corporations which are forced by circumstances to use different methods of tax computation.

(2) THE BILL AFFORDS UNWARRANTED PREFERENTIAL TREATMENT TO CERTAIN CORPORATIONS

The large prosperous corporations with consistent substantial profits are those most able to pay an excess-profits tax. Under this bill, they will pay little or no tax. No matter if they are earning 20, 50, 100, or 1,000

percent on their invested capital, they may continue, under the average-earnings method of this bill, to earn those profits without additional tax. A tremendous advantage is accorded the established prosperous corporation against a competitor who suffered a depressed condition during the base period or the newly organized corporation which has not become established.

(3) THE BILL ENCOURAGES MONOPOLY AND DISCRIMINATES AGAINST COMPETITORS OF PROSPEROUS ESTABLISHED CORPORATIONS

If there was ever a tax measure which promised to perpetuate monopolistic corporations in their moncpolies, it is this one. Three corporations, A, B, and C, are competitors. Corporation A is a quasi monopolist earning profits of 25 percent on invested capital during the base period. Corporation B, struggling against terrific odds, earned 9 percent. Corporation C is newly organized. In 1940, corporation A continued to earn 25 percent; B earned 15 percent; C, 9 percent. This would be typical experience because it is a well-known fact that a certain development period with low profits is typical of the new corporation.

Under the average-earnings method of this tax bill, corporation A would pay no excess-profits tax whatsoever. Corporation B would pay a substantial tax though its earnings were much less. Corporation C would also have to pay an excess-profits tax, unless it were small enough so that the $10,000 flat exemption gave it relief.

This tax would be an insurmountable barrier to fair competition among the corporations. No more powerful club than this could be placed in the hand of corporation A. No other concern could successfully challenge its quasi-monopolistic position. If during any future year corporation B or C did achieve the same level of profits as corporation A, they would pay most of it in additional taxes while corporation A went untaxed. The most likely result would be bankruptcy for B and C; a complete monopoly for A.

This inequity inherent in the committee amendment may be further illustrated by the following example, which shows the excess-profits tax that would be payable under the committee amendment by each of two corporations having the same invested capital and excess-profits net income during the taxable year. One of these corporations—corporation A—is, however, an established company with stabilized earnings and the other, corporation B, is a growing enterprise competing with corporation A.

	Corporation A	Corporation B
Current year:		
Excess-profits net income	$1,000,000	$1,000,000
Invested capital	$5,000,000	$5,000,000
Rate of return—percent	20	20
Base period:		
Excess-profits net income (average)	$1,000,000	$200,000
Invested capital (average)	$5,000,000	$5,000,000
Rate of return (average) percent	20	4
Taxable excess profits:		
Average earnings method	0	$790,000
Invested capital method	$590,000	$590,000
Tax:		
Average earnings method	0	$349,000
Invested capital method	$249,000	$249,000
Tax liability [1]	0	$249,000

[1] Excludes the 3.1 percent increase in normal corporation income tax.

It is a serious charge that this bill should condone and encourage monopoly, but perhaps even more serious is the severe penalty that is placed on the new or growing corporation. Such a corporation probably received little profit during the initial years and is now entering into a period when the work of earlier unprofitable years is beginning to bear fruit. The bill allows no future prosperous years for the new or growing corporation; it envisages an economy with the present inequities "frozen" into the future. The precedent herein set will make it all the more difficult at some later date to tax these "privileged" corporations adequately. The hue and cry then will be raised, just as it has been raised to a certain extent now, that the stockholders who have recently purchased stock at high prices because of anticipated high earnings have a vested interest which should not be disturbed. The idea is fallacious, but to allow it to go unchallenged here in this tax bill would give it a cloak of validity which would be hard later to remove.

Entirely disregarded in H. R. 10413 is one of the cardinal principles of taxation: That the burden should be fairly distributed. The preponderance of testimony during the hearings clearly demonstrates that many taxpayers are more concerned about the equity of the tax than the amount of the tax. Aside from those corporations with high earnings which will be able to take advantage of the average earnings tax method, corporations in general are willing to bear almost any reasonable load provided their competitor is treated similarly. The average earnings method and the hodgepodge of a dual method of computing tax liability precludes equal treatment for all.

It has been said in answer to the above contentions that it is not the function of a tax bill to remove existing competitive disadvantages or advantages. This answer is specious. One can agree that it is not the purpose of a tax bill to equalize competitive conditions. But it is undeniable that tax bills should not distort existing competitive conditions and place unwarranted tax handicaps upon one class of corporations as opposed to another, thereby creating an indefensible competitive advantage in favor of the latter. The objection to the committee amendment is not that it does not equalize existing competitive conditions. Rather the objection is that the committee amendment in and of itself creates new and far-reaching competitive advantages. The invested-capital method, on the other hand, does not create or give rise to either new competitive advantages or new competitive disadvantages. It simply imposes an excess-profits tax which falls alike on corporations regardless of their competitive position and thereby does not disturb existing competitive conditions.

(4) THE RATES OF THE TAX IN THE BILL ARE NOT GRADUATED FAIRLY

The rates in the bill are graduated according to the amount of so-called excess profits. This means that a large corporation may make only a very small percentage of excess profits on its capital and still pay the highest rate of tax. Thus, a corporation with $100,000,000 of invested capital and $1,000,000 of taxable excess profits will pay the same tax as a corporation which has the same amount of taxable profits on an invested capital of only $1,000,000. In other words, the brackets are now graduated without reference at all to the earnings or size of a corporation, and a corporation which had excess profits amounting to a 100-percent return on invested capital would pay no more tax than a corporation having excess profits amounting to 10 percent on invested capital, providing the absolute amounts of excess profits were the same.

Profits cannot be divided sharply into those that are excessive and those that are not. Excessiveness is a matter of degree, and the tax rate should be graduated according to the degrees of excessiveness, not simply according to the amount of excess profits. A proper rate structure for an excess-profits tax would graduate the rate according to the ratio of profit to invested capital. Under the rate structure as it now stands, many corporations with extremely excessive profits will pay much more moderate taxes than other corporations with only moderate excess profits.

ESTIMATED ADDITIONAL REVENUE

The Treasury Department estimates that an additional $1,394,700,000 in corporation taxes will flow into the Treasury in full-year effect of the committee bill. Proponents of the measure point to an alleged increase in the excess-profits tax yield of $1,130,600,000. The figure is somewhat misleading. The yield is achieved only after reversing the tax-deduction procedure, and at an expense of $501,100,000 in the yield of the normal corporate income tax.

Thus, in order to obtain the same or slightly more than present tax revenues from the normal net income of corporations, the committee found it necessary to impose new surtax rates of 6 and 7 percent. The net additional yield in this bill from excess profits, over and above the surtax yield, is only $629,600,000.

With an excess-profits tax based solely on invested capital, and without any increase in the rates in the pending bill, the Treasury estimates that $1,880,000,000 additional yield could be derived from excess profits—about $650,000,000 more than the committee bill. Thus, with a full-year effect a total of $2,900,000,000 would be derived from excess profits—a figure not unreasonable in view of the $2,500,000,000 collected from excess profits in 1920.

PRESENT AND PROSPECTIVE LEVELS OF CORPORATION PROFITS

The direct and indirect effects of Government defense spending are not yet fully reflected in the level of corporation profits, but already the profits are at record high levels. The National City Bank of New York reports the profits of 360 leading corporations in the first half of 1941 to be 20.9 percent above a year ago—after allowing for prospective taxes. Last year's first half was 58.6 percent above the previous year, again after taxes, depreciation, interest and other charges, and reserves.

Tables 8 and 9 show the data in detail by major industrial groups.

TABLE 8.—*Profits of leading corporations for the half year*

Net profits are as reported, after depreciation, interest, taxes, and other charges and reserves, but before dividends—net worth includes book value of outstanding preferred and common stock and surplus account at beginning of each year

[In thousands of dollars]

No.	Industrial groups	Net profits, half year		Percent change	Net worth Jan. 1		Annual rate of return (percent)	
		1940	1941		1940	1941	1940	1941
7	Baking	7,970	7,608	−4.5	236,681	237,381	6.7	6.4
14	Food products, miscellaneous	34,974	39,194	+12.1	534,953	541,084	13.1	14.5
7	Beverages	8,132	9,088	+11.8	129,922	136,421	12.5	13.3
17	Textiles and apparel	7,862	10,654	+35.5	176,025	169,854	8.9	12.5

TABLE 8.—*Profits of leading corporations for the half year*—Continued

[In thousands of dollars]

No.	Industrial groups	Net profits, half year		Percent change	Net worth Jan. 1		Annual rate of return (percent)	
		1940	1941		1940	1941	1940	1941
7	Wood products	1,326	4,515	+240.5	59,360	61,281	4.5	14.7
14	Paper products	6,883	7,892	+14.7	159,185	164,248	8.6	9.6
28	Chemicals, drugs, etc	92,082	94,021	+2.1	1,300,054	1,331,123	14.2	14.1
11	Petroleum products	141,070	135,227	−4.1	2,666,501	2,671,664	10.6	10.1
13	Stone, clay, and glass	12,220	14,807	+21.2	221,718	223,378	11.0	13.3
26	Iron and steel	61,915	126,111	+103.7	2,447,002	2,491,210	5.1	10.1
12	Building equipment	7,536	11,519	+52.9	224,738	219,780	6.7	10.5
14	Electrical equipment	42,863	47,662	+11.2	637,133	652,618	13.5	14.6
10	Hardware, tools, etc	4,664	6,373	+36.6	82,764	85,572	11.3	14.9
27	Machinery	16,377	21,204	+29.5	158,471	175,062	20.7	24.2
4	Office equipment	8,232	11,557	+40.4	133,264	136,668	12.4	16.9
10	Railway equipment	9,498	13,051	+37.4	173,403	182,930	11.0	14.3
9	Automobile	116,701	125,860	+7.8	1,149,449	1,190,568	20.3	21.1
19	Auto equipment	10,781	14,293	+32.6	111,478	120,197	19.3	23.8
36	Metal products, miscellaneous	20,354	29,603	+45.4	220,815	246,232	18.4	24.0
19	Miscellaneous manufacturing	9,947	18,119	+82.2	316,893	326,785	6.3	11.1
304	Total manufacturing	621,387	748,358	+20.4	11,139,809	11,364,056	11.2	13.2
10	Coal mining	[1] 830	[1] 2,698	+225.1	201,314	206,617	.8	2.6
9	Metal mining	[1] 8,787	[1] 9,649	+9.8	164,037	167,564	10.7	11.5
9	Mining, quarrying—miscellaneous	[1] 9,276	[1] 9,536	+2.8	124,419	121,393	14.9	15.7
16	Trade (wholesale and retail)	3,459	5,982	+72.9	209,447	211,858	3.3	5.6
12	Service and construction	8,389	8,317	−.9	226,955	229,531	7.4	7.2
360	Total	652,128	784,540	+20.3	12,065,981	12,301,019	10.8	12.8

[1] Before certain charges.
D—Deficit.

Source: Bulletin of National City Bank of New York, August 1941.

TABLE 9.—*Comparisons of profits of leading corporations for the first half year 1939, 1940, and 1941—percentage change in net profits after depreciation, interest, taxes, and other charges and reserves, but before dividends*

	Increase 1940 over 1939	Increase 1941 over 1940
Baking	−8.5	−4.5
Food products, miscellaneous	5.1	12.8
Beverages	21.5	11.8
Textiles and apparel	51.3	35.5
Wood products	1,129.2	240.5
Paper products	137.8	14.7
Chemicals, drugs, etc	38.8	2.1
Petroleum products	209.1	−4.1
Stone, clay, and glass	35.9	21.2
Iron and steel	451.1	103.7
Building equipment	180.2	52.9
Electrical equipment	66.7	11.2
Hardware, tools, etc	78.9	36.6
Machinery	238.8	29.5
Office equipment	28.7	40.4
Railway equipment	492.0	37.4
Automobile	17.6	7.8
Auto equipment	62.7	32.6
Metal products, miscellaneous	107.8	45.4
Miscellaneous manufacturing	−14.5	82.2
Total, manufacturing	60.8	20.4
Coal mining	[1]	225.1
Metal mining	41.7	9.8
Mining, quarrying, miscellaneous	24.0	2.8
Trade (wholesale and retail)	10.9	72.9
Service and construction	5.2	−.9
Total, all groups (Total, all groups, increase in first half of 1941 over 1939: 92.6 percent.)	58.6	20.3

[1] Data not comparable.

Source: Bulletins of the National City Bank of New York, August 1940 and August 1941.

It is interesting to note, in this connection, that most corporations are laying aside very generous reserves in anticipation of vastly increased taxes. The Wall Street Journal, for example, recently reported:

Tax mystery: United Aircraft recently reported tax reserves of over 78 percent of its current profits.

The top any corporation has to pay is 72 percent, including income, excess profits, and surtaxes. This suggests United, like many another big industrial company, is using ultraconservative bookkeeping to avoid phony profits, must report more liberally to the Government and to its stockholders.

Detailed compilations of corporation profits, for individual corporations, as taken from published financial reports, 1940 compared with 1939, and the first half of 1941 compared with the first half of 1940, have been published in the Economic Outlook for February and July 1941. The compilations are reproduced below in tables 10 and 11.

TABLE 10.—*Corporation profits in 1940 compared with 1939* [1]

Company	1940	1939	Percent increase
Allegheny-Ludlum Steel	$3,700,000	$2,093,518	77.0
American Can	17,440,906	18,284,963	−4.6
American Metal	3,689,957	2,994,740	23.0
American Tobacco	28,311,782	26,427,934	7.0
American Woolen	3,154,464	2,311,887	36.4
Aviation Corporation (year ending Nov. 30)	88,350	−2,238,409	
Babcock & Wilcox	3,588,199	1,168,782	206.0
Bath Iron Works	2,052,180	660,703	211.0
Bell Aircraft	284,745	9,203	3,000.0
Bethlehem Steel	48,679,524	24,638,384	97.5
Bridgeport Brass	1,258,776	459,058	174.0
Caterpillar Tractor	7,839,117	6,004,890	30.6
Chrysler Motors	37,802,279	36,879,829	2.4
Commercial Solvents Corporation	2,387,321	1,600,389	49.2
Consolidated Coal	402,290	−863,915	
Container Corporation	2,227,682	1,448,900	54.0
Continental Can	8,953,632	8,635,787	3.7
Crucible Steel	6,230,180	2,803,596	122.0
Douglas Aircraft (year ending Nov. 30, 1940)	10,831,971	2,884,197	275.0
Du Pont, E. I	86,945,173	93,218,664	−6.7
Electric Auto Lite	6,001,718	5,653,839	6.1
General Cable	2,455,362	733,166	235.0
General Electric	56,241,000	41,235,644	36.5
General Foods	15,244,077	15,118,063	.8
General Motors	195,500,000	183,290,222	6.7
General Steel Casting	$1,106,196	$5,661	19,560.0
Goodrich Tire & Rubber	6,104,993	6,628,746	−7.9
Goodyear Tire & Rubber	10,309,788	9,838,797	4.8
Harbison-Walker Refractories	2,513,936	1,868,999	35.0

Most of the profits herein listed are net profits and hence the figures are not directly comparable with figures used elsewhere in this minority report when speaking of net income before taxes.

TABLE 10.—*Corporation profits in 1940 compared with 1939*—Continued

Company	1940	1939	Percent increase
Inland Steel	$14,450,385	$10,931,016	32.2
International Harvester (year ending Oct. 31, 1940)	23,161,110	7,952,810	191.0
Jones & Laughlin Steel	10,277,029	3,188,944	222.0
Lehigh Coal & Navigation	1,101,853	18,674	5,700.0
Libbey-Owens-Ford Glass	9,992,766	8,062,753	24.0
Mack Truck	1,805,821	682,987	166.0
Mesta Machine	3,083,032	2,715,427	13.5
Monarch Machine	1,183,102	529,577	123.0
National Distillers Products Corporation	6,711,962	7,007,124	−4.4
National Gypsum	1,565,196	1,455,237	7.9
National Lead	6,102,702	5,780,500	5.6
New Jersey Zinc	8,236,815	5,299,055	55.5
New York Air Brake	1,046,656	797,858	40.0
New York Ship Building (first 11 months 1940)	2,178,748	928,246	135.0
North American Rayon Corporation	1,781,425	2,010,252	−11.4
Otis Steel	717,007	214,965	234.0
Pittsburgh Coal Co	1,255,893	−1,068,787	
Pittsburgh Steel Co	1,555,794	564,870	175.0
Pure Oil	8,718,057	8,290,418	5.2
Radio Corporation of America	9,113,156	8,082,810	12.9
Rayonier, Inc. (9 months to Jan. 31)	3,031,953	1,425,193	112.5
Remington Rand (9 months ending Dec. 31, 1940)	2,026,372	1,104,418	83.4
Republic Steel	21,113,507	10,671,343	98.0
Rustless Iron and Steel	1,275,993	1,090,876	16.9
Savage Arms Corporation	1,028,141	349,307	195.0
Shell Union Oil	15,600,000	11,805,713	32.1
Taylor Craft Aviation Corporation	57,069		
Union Bag & Paper Co	2,129,946	965,532	120.0
United States Rubber	11,425,241	10,218,849	12.0
United States Steel	102,181,321	41,119,934	148.0
Vultee Aircraft (year ending Nov. 30, 1940)	374,457	25,488	1,370.0
Walworth Co	1,123,156	205,900	445.0
Warner & Swasey	3,371,283	1,864,553	81.0
Western Union	3,621,581	1,380,114	163.0
Westinghouse Air Brake	5,591,606	2,765,629	102.0
Westinghouse Electric	18,983,428	13,854,365	37.0
Wheeling Steel	5,663,930	5,560,753	1.8
Yellow Truck & Coach Co	5,813,976	3,276,474	77.5
Youngstown Sheet & Tube	10,815,468	5,004,484	116.0

TABLE 11.—*Corporation profits in the first half of 1941 compared with the first half of 1940*

Corporation	Profits		Percent change
	First 6 months 1941	First 6 months 1940	
Air Reduction Co	$4,066,135	$3,106,096	30.8
Allegheny Ludlum Steel	4,169,347	1,893,291	120
Allis Chalmers	2,389,577	2,609,758	−9.2
American Brake Shoe & Foundry	1,479,341	1,226,637	20.5
American Radiator Co	3,271,009	1,535,905	113
American Rolling Mill Co	6,667,976	2,084,599	220
American Slating Co	282,227	100,197	182
American Steel Foundries	2,067,719	1,666,525	24.1
Anaconda Wire & Cable	1,410,519	497,259	184
Atlas Powder	938,110	744,518	26.1
Babcock & Wilcox	1,850,063	1,474,905	25.4
Baldwin Locomotive (12 months—June)	2,486,344	1,734,344	43.3
Bausch & Lomb Optical Co	1,174,528	767,285	53
Bendix Aviation (12 months—June)	11,687,229	6,613,180	77
Blaw-Knox Steel	1,220,496	602,717	102
Bohn Aluminum & Brass	817,087	592,181	38
Bridgeport Brass	867,494	506,167	71.4
Budd Wheel	915,972	394,445	132
Caterpillar Tractor	4,298,540	3,509,514	22.5
Consolidated Coal	317,872	136,257	134
Container Corporation	663,649	509,100	35
Continental Oil	2,642,082	1,007,852	163
Coos Bay Lumber	341,259	95,043	259
Copperweld Steel Co	919,952	521,314	77

TABLE 11.—*Corporation profits in the first half of 1941 compared with the first half of 1940*—Continued

Corporation	Profits		Percent change
	First 6 months 1941	First 6 months 1940	
Crosley Corporation	$798,634	$96,661	725
Crucible Steel	2,924,430	1,817,293	61
Detroit Steel	431,636	209,939	106
E. I. du Pont	43,761,797	46,853,695	−7.1
Eaton Manufacturing Co	1,979,764	1,908,348	3.8
Fruehauf Trailer	1,137,977	519,583	119
General Electric	26,003,665	25,981,752	0.09
General Steel Castings	1,690,900	72,958	2,210
General Tire & Rubber	1,004,443	280,563	259
General Motors Corporation	118,177,805	113,575,460	4
Goodrich Co	6,646,033	1,362,691	388
Hazel-Atlas Glass	1,396,788	1,270,963	10
International Business Machines	4,728,336	4,293,482	10.1
Johns-Manville Corporation	1,457,213	1,110,319	31.2
Jones & Laughlin Steel	8,098,227	3,276,256	147
Lehigh Coal & Navigation (year ending June 30)	1,848,300	138,812	1,230
Lehigh Valley Coal Corporation	605,434	251,440	141
Libbey-Owens-Ford	5,377,247	5,176,748	3.9
Magma Copper Co	800,142	717,587	11.6
Mathiesen Alkali Works	997,345	827,540	20.6
Minneapolis-Honeywell Regulator	1,104,278	603,921	83
Nash-Kelvinator (9 months to June)	3,734,246	1,307,878	186
National Lead	3,289,000	3,119,810	5.4
New York Air Brake	1,121,446	832,818	34.6
North American Aviation	3,900,745	2,367,638	64.7
Otis Steel	1,088,255	−362,143	
Owens-Illinois Glass	7,640,538	8,589,202	−11
Pepsi-Cola	3,300,000	2,525,000	30.6
Phillips Petroleum	8,236,680	6,378,198	29.2
Remington Rand, Inc. (June quarter)	1,383,693	565,240	145
Reo Motors	147,994	−785,988	
Republic Steel	13,618,716	6,449,453	111
Reynolds Metal	1,886,853	1,312,447	43.8
Rustless Iron & Steel	1,164,460	430,537	171
Sharon Steel	813,241	388,903	109
Sloss-Sheffield Steel & Iron Co	863,464	572,543	51
Sunshine Mining	1,186,431	1,285,934	−7.8
Studebaker	1,313,877	957,309	37.3
Texas Pacific Coal	469,505	292,840	60
Union Carbide & Carbon	21,342,134	19,972,176	6.9
United Aircraft Products	346,329	172,948	100
United States Pipe & Foundry	1,816,700	783,018	132
United States Steel	61,374,746	36,315,003	69
Virginia Iron, Coal & Coke	27,788	−10,528	
Walworth Co	909,820	203,415	350
Westinghouse	11,568,400	9,837,012	17.6
Westinghouse Air Brake	4,011,380	3,204,000	25.2
West Virginia Coal & Coke	179,053	−87,466	
Wheeling Steel	4,689,196	1,664,078	182
White Motor Co	791,355	743,529	6.5
Youngstown Sheet & Tube	8,992,994	2,423,212	276

GOVERNMENT CONTRACTS AND CORPORATION PROFITS

Presently available data are not sufficient to make any thorough study of profits earned on Government contracts. Although the data below in table 12 are far from conclusive, it shows that some corporations obtaining large Government defense contracts have also earned phenominal increases in profits.

TABLE 12.—*Relationship between Government contracts and corporation profits*

NOTE.—From June 1940 to June 1941 the War and Navy Departments allocated $9,839,000,000 of supply contracts of which 73.9 percent in dollar value was awarded to 56 companies. Published financial data, which may differ somewhat from data submitted for income-tax purposes, are available for 14 of these corporations. The table below sets forth the dollar value of contracts received and the percentage increase in profits in 1940 over the average net income in the base period years 1936-39. Obviously, in most cases the contracts were merely awarded and not completed; hence, only part of the profits from Government contracts are reflected. Obviously, too, the profits reflect additional business from other than Government sources which may or may not be indirectly due to the defense program]

Corporation	Dollar value of defense contracts (in millions)	Percentage increase in profits in 1940 over 1936-39 average
New York Shipbuilding	507.3	2,448
General Motors	489.9	51
Curtiss-Wright	443.9	1,051
Newport News Shipbuilding	389.2	441
du Pont de Nemours	318.5	77
Glenn L. Martin	249.1	230
United Aircraft	224.5	452
United States Steel	209.9	163
Electric Boat	126.1	289
Sperry Corporation	108.0	238
American Car & Foundry	81.2	2,470
Chrysler Corporation	74.0	24
Lockheed Aircraft	46.5	328
Hercules Powder	29.9	92
Total	3,298.0	[1] 91.5

[1] Weighted.

PROFITS NOW AND PROFITS IN 1916

Another common allegation is the assertion that profits now do not compare with profits in the last war. Again, no conclusive evidence is available, but the following table of a few companies chosen at random is interesting in depicting shades of 1916.

TABLE 13.—*"Shades of 1916"—Comparison of net income of selected corporations in pre-World War and World War years with 1936-39 pre-defense and 1940 years*

[Millions of dollars]

Corporation	Pre-war 1911-13	1916	Pre-defense 1936-39	1940
American Woolen Co	1.75	5.86	−0.32	3.96
Continental Can	.79	2.14	9.98	12.24
Du Pont de Nemours	5.53	82.11	63.44	112.53
General Motors	4.56	28.79	221.67	335.75
Hercules Powder	1.02	16.66	5.29	10.14
International Paper & Power	1.11	4.62	5.12	23.18
Standard Oil of New Jersey			171.98	197.37
Standard Oil of Indiana	14.68	30.04		
United States Steel	63.59	271.53	59.24	155.83

Source: Current data from published financial reports. 1911-16 data from p. 62, Minority Report of Senator Robert M. La Follette, Sr., to H. R. 4280, 65th Cong., Revenue Act of 1917.

KINDS OF EXCESS PROFITS NOT REACHED BY THE COMMITTEE BILL

Apart from the fact that the two-headed plan of computing excess profits makes the Treasury a loser every time, the present excess-profits tax does not reach two major types of excess profits: (1) The profits of those prosperous corporations which have earned substantial net income during the base period, and (2) the profits of those corporations which have earned phenomenal increases in profits due to the defense program, and yet are not liable for taxation thereon because of a high capitalization.

The injustices and abnormal competitive situations arising out of the former type were fully discussed in my minority report last year to the Second Revenue Act of 1940 (and quoted previously in this report). The situations arising out of the latter type have been discussed by the Treasury Department before both the House Ways and Means Committee and the Senate Finance Committee. The Assistant Secretary of the Treasury, Mr. Sullivan, told the House committee:

> Many corporations that are the principal beneficiaries of the defense effort and that hold large Government contracts are paying little or no excess-profits tax * * *. To meet this defect, we would suggest revising the 1940 proposal to provide * * * a tax at a low flat rate, possibly 10 percent, to that part of the current profits that is in excess of the base-period earnings * * *.

The House of Representatives adopted the proposal, but a majority of the Finance Committee saw fit to delete this special provision. The steel companies, railroads, and coal companies were thereby saved $67,700,000—which the committee added to the tax burden of the low-income taxpayer and corporations in general. In my opinion, not only should this special rule be applied but the rates should be higher than the 10 percent suggested by the Treasury.

The specific illustrative examples below, typical examples, show the facts concerning corporations which fall into these two categories. Coca-Cola, Chrysler, J. C. Penney, General Motors, and Liggett & Myers are illustrative of corporations earning substantial profits during the base period. United States Steel, American Woolen, American Car & Foundry, and International Paper & Power are illustrative of corporations with high invested capital.

TABLE 14.—*Illustrative typical examples of corporations earning substantial net incomes during the base period 1936-39 and tax year 1940: Comparison of excess-profits tax liability (present law) under invested capital and average earnings methods*

[NOTE.—Computations are based on published financial data which may differ somewhat from data for income-tax purposes]

EXAMPLE NO. 1. COCA-COLA

Net income:	*Millions of dollars*
1936	27.1
1937	32.0
1938	33.5

TABLE 14—Continued

Net income—Continued.	Millions of dollars
1939	39.1
Average, 1936–39	33.1
1940	43.9
1940 equity capital	89.0
Return on equity capital:	Percent
1936–39	37.0
1940	49.3
Approximate excess-profits tax, 1940:	Millions of dollars
Invested capital method	13.1
Average earnings method	1.0
Difference	12.1

EXAMPLE NO. 2. CHRYSLER

Net income:	Millions of dollars
1936	76.2
1937	63.0
1938	22.5
1939	47.9
Average, 1936–39	52.4
1940	64.8
1940 equity capital	188.8
Return on equity capital:	Percent
1936–39	27.8
1940	34.3
Approximate excess profits tax, 1940:	Millions of dollars
Invested capital method	17.0
Average earnings method	3.7
Difference	13.3

EXAMPLE NO. 3. J. C. PENNEY CO.

Net income:	Millions of dollars
1936	22.0
1937	19.7
1938	16.6
1939	20.0
Average, 1936–39	19.6
1940	21.8
1940 equity capital	85.6
Return on equity capital:	Percent
1936–39	22.9
1940	25.4
Approximate excess-profits tax, 1940:	Millions of dollars
Invested-capital method	4.8
Average-earnings method	.4
Difference	4.4

EXAMPLE NO. 4. GENERAL MOTORS

Net income:	Millions of dollars
1936	282.3
1937	245.8
1938	130.3
1939	228.3
Average, 1936–39	221.7
1940	335.7
1940 equity capital	1,156.9
Return on equity capital:	Percent
1936–39	19.2
1940	29.0
Approximate excess profits tax, 1940:	Millions of dollars
Invested-capital method	81.3
Average-earnings method	39.1
Difference	42.2

TABLE 14—Continued

EXAMPLE NO. 5. LIGGETT & MYERS

Net income:	Millions of dollars
1936	28.4
1937	25.1
1938	25.0
1939	24.7
Average 1936–39	25.7
1940	27.1
1940 equity capital	154.3
Return on equity capital:	Percent
1936–39	16.7
1940	17.6
Approximate excess-profits tax, 1940:	Millions of dollars
Invested-capital method	3.97
Average-earnings method	.02
Difference	3.95

TABLE 15.—*Illustrative typical examples of corporations earning substantially increased net incomes in 1940 over the base period 1936–39, but which are not liable for heavy excess-profits taxation: Comparisons of excess-profits tax liability (present law) under invested capital and average earnings methods*

[NOTE.—Computations are based on published financial data which may differ somewhat from data for income-tax purposes]

EXAMPLE NO. 1, UNITED STATES STEEL

Net income:	Millions of dollars
1936	62.3
1937	125.4
1938	−4.8
1939	54.1
Average, 1936–39	59.2
1940	155.8
Excess of earnings in 1940 over 1936–39 average	96.6
Excess-profits tax liability	0

EXAMPLE NO. 2. AMERICAN WOOLEN CO.

Net income:	Millions of dollars
1936	2.55
1937	−1.69
1938	−4.87
1939	2.74
Average, 1936–39	−.32
1940	3.96
Excess of earnings in 1940 over 1936–39 average	4.28
Excess-profits tax liability	0.00

EXAMPLE NO. 3. AMERICAN CAR & FOUNDRY

Net income:	Millions of dollars
1936	1.41
1937	.96
1938	−1.54
1939	.20
Average, 1936–39	.26
1940	6.58
Excess of earnings in 1940 over 1936–39 average	6.32
Excess-profits tax liability	0.00

EXAMPLE NO. 4. INTERNATIONAL PAPER & POWER CO.

Net income:	Millions of dollars
1936	5.69
1937	9.62

TABLE 14—Continued

Net income—Continued.	Millions of dollars
1938	.20
1939	4.96
Average, 1936–39	5.12
1940	23.18
Excess of earnings in 1940 over 1936–39 average	18.06
Excess-profits tax liability	2.13

PART IV. OTHER DEFECTS IN THE BILL

1. THE ESTATE- AND GIFT-TAX EXEMPTIONS AND RATES ARE TOO GENEROUS

The original Treasury recommendations proposed to reduce the estate- and gift-tax exemptions from $40,000 to $25,000 (with the insurance exclusion reduced similarly) and to apply tax rates on the net estate ranging from 4 to 70 percent, and on gifts, three-fourths of the estate-tax rate. It was estimated that the additional revenue yield would be $347,200,000.

The Ways and Means Committee rejected the proposal and merely increased the rates somewhat on net estates and gifts in excess of the present exemptions of $40,000. The Finance Committee made but minor changes. Hence, the bill as now recommended to the Senate will raise only an additional $157,600,000 from this source—less than one-half of the Treasury recommendation.

In my opinion, the original recommendations of the Treasury were amply justified. Except for the argument that small estates and gifts should be reserved to the States for taxation, no compelling argument has been raised to justify the exemptions of $40,000 during the present fiscal emergency. Even the State-tax-base argument loses much of its validity in the face of much more serious encroachments of the Federal Government in the taxation of gasoline and individual income. It must be exceedingly difficult for those who favor a $40,000 estate-tax exemption to explain why the single man or woman earning less than $15 a week should pay an income tax based on an exemption of less than one-fiftieth as much. Under the bill as recommended by a majority of the committee, an estate of $41,000 will bear a Federal tax of $30. The same amount will be paid in income tax by a single individual earning $21.65 a week.

It is significant to observe that Great Britain imposes a $1,600 tax on a $40,000 estate (conversion unit: £1 equals $4). Even a $2,500 estate in Great Britain is taxed $50.

2. THE COMMITTEE BILL IMPOSES AN UNJUST AND INEQUITABLE AUTOMOBILE USE TAX

This proposed tax is a flat levy which would be paid in equal amount by the owner of a Ford or a Cadillac, by the 20,000-miles-a-year driver and the 500-miles-a-year driver. In the words of Mr.

Sullivan during the Senate hearings on this bill:

The proposed tax has no relationship to the extent of use or the value of the object taxed and, therefore, is unusually inequitable. It taxes a $5,000 town car exactly the same $5 as the fifth-hand car worth only $20. It will conflict directly with one of the most important State and local sources of revenue. In some States, the proposed tax will in effect increase the average cost of automobile registration by more than 100 percent. The proposed tax must be collected from 32,000,000 taxpayers located throughout every State and county in the country. This would require additional personnel in the Bureau of Internal Revenue of at least 3,800 new employees. The administrative cost is estimated to be $9,600,000 or approximately $6 per $100 of tax collected, which is more than five times the average cost of collecting other excise taxes.

The average motor-vehicle operator is already paying more than his share in gasoline and excise taxes and registration and other fees. Each motor vehicle in 1939, according to reliable estimates, paid an average tax of $50.82. The burden has grown since.

If it were deemed necessary to put an additional tax on automobiles, it would be more logical to increase the excise tax on new automobiles from the proposed 7 to 10 percent. With the curtailment in production necessary because of national defense, the consumer would be more than willing to pay the additional tax to secure a car; the supply and demand situation would be less acute; and the Government, instead of the manufacturer, would benefit from an increased price which is likely to be paid by the consumer in any case.

3. THE COMMITTEE BILL PLACES VARIOUS EXCISE TAXES ON A "PERMANENT" BASIS

Since the enactment of the Revenue Act of 1932, various taxes have been carried in our tax structure as "temporary taxes." They were renewed periodically by legislation extending the date of applicability. The committee bill makes these taxes "permanent." I, for one, have held the hope that these regressive taxes might be wiped off the statute books. The committee recommendation will make the future elimination of these taxes difficult, if not impossible.

4. THE COMMITTEE BILL FAILS TO CORRECT THE PRESENT OVERLY GENEROUS DEPLETION ALLOWANCES GRANTED FOR TAX PURPOSES TO CONCERNS ENGAGED IN THE EXTRACTION OF NATURAL RESOURCES

As pointed out by Secretary Morgenthau in the hearings before the Finance Committee, the present tax laws are too generous in dealing with depletion allowances. No one questions the fact that reasonable maintenance, depreciation, and obsolescence allowances must be made in arriving at net income. However, the degree of such allowances must be measured and governed by comparative sacrifices borne by other taxpayers.

5. THE COMMITTEE BILL FAILS TO TAX A CONSIDERABLE VOLUME OF STATE AND LOCAL SECURITIES WHICH ARE STILL EXEMPT FOR INCOME-TAX PURPOSES

The surtax in the committee bill, it is true, will reach a part of the interest derived from partially tax-exempt securities. About $31,600,000 in additional Federal revenue will be derived therefrom. However, a large bloc of securites will still remain untaxed. More than $19,000,000,000 of State and local securities are wholly tax exempt.

Exhaustive studies of this subject have been made by both the Congress and the Treasury Department. The Treasury Department under several different administrations has consistently advocated the removal of the tax exemptions. Economists are practically unanimous in agreeing that there is no rhyme or reason in allowing interest from Government bonds to go untaxed.

In my opinion, the Finance Committee should have given consideration to this subject in connection with this bill and, once and for all, eliminated the vestige of old tax theories on the subject.

6. THE LOWERED EXEMPTIONS ON THE PERSONAL INCOME TAX ARE UNJUSTIFIED

When Secretary Morgenthau appeared before the Senate Finance Committee on August 8, 1941, he said, speaking of lowered tax exemptions:

We ought not to accept such sacrifices, even though willing sacrifices, from millions of people with low incomes on whom the burden of other types of taxes falls most heavily, unless we reach in other places ability to pay which is escaping its fair share of taxes. Among these are the following:

The excess-profits tax exempts profits of even the most prosperous corporation, except to the extent that such profits are in excess of its average profits for the years 1936–39. Surely Congress will not wish to impose additional taxes on millions more of our low-income group unless it also imposes the excess-profits tax on exempt excess profits of such corporations.

Families pay lower Federal income taxes when both husband and wife receive incomes than when the same total amount of income is received by only one of them. This is a discrimination of which many wealthy people have taken advantage by large gifts of income-producing property between husband and wife.

For years the concerns engaged in extracting certain of our natural resources, notably oil, have been granted far greater allowances for depletion than can be justified on any reasonable basis of tax equity. If the income tax is to be extended to lower incomes, this privilege of tax escape should simultaneously be removed.

A few months ago the Congress eliminated the tax-exemption privilege from new issues of Federal securities. The purchasers of new State and local securities still enjoy this exemption. The exemption was inequitable and expensive even in normal times. It cannot be borne longer in a time like this, and especially if we are to increase the direct tax burdens of persons with smaller incomes.

In its suggestion to the Ways and Means Committee the Treasury recommended substantial increases in estate and gift taxes and lower exemptions. In part, this recommendation was followed; but, in my opinion, the estate and gift taxes should reach more estates and provide more revenue if we are going to tax smaller incomes.

Could anything more emphatic have been said about what should come first?

What did the committee do? They complied with none of the qualifying provisions, but proceeded to lowering the exemptions nevertheless.

As an advocate in past years for the lowering of income-tax exemptions, I have consistently maintained that such was a preferable choice as between that or consumption taxes. I still adhere to that view. But I am wholly unwilling to soak the poor man with both. That is precisely what this bill does.

The T. N. E. C. Monograph No. 3, entitled "Who Pays the Taxes," reveals some facts that many pressure groups are trying desperately to discredit. It reveals that, because of hidden and regressive taxes, consumers in the lowest income brackets are paying a larger share of their income in taxes than are substantially wealthier income groups.

I am unwilling to place a heavier burden on them through this bill.

The following tabulation shows concisely how income-tax rates and exemptions have been changed in past years:

Federal individual income-tax rates

Income year	Personal exemptions		Normal tax rate	Surtaxes		Maximum, normal, and surtax
	Single	Married		Begin at—	Range of rates	
			Pct.		*Pct.*	*Pct.*
1913–15	$3,000	$4,000	1	$20,000	1–6	7
1916	3,000	4,000	2	20,000	1–13	15
1917 [1]	1,000	2,000	2.4	5,000	1–63+	67+
1918	1,000	2,000	6–12	5,000	1–65	77
1919–20	1,000	2,000	4–8	5,000	1–65	73
1921	1,000	2,500	4–8	5,000	1–65	73
1922–23	1,000	2,500	4–8	6,000	1–50	58
1924	1,000	2,500	2–6	10,000	1–40	46
1925–28	1,500	3,500	1½–5	10,000	1–20	25
1929	1,500	3,500	½–4	10,000	1–20	24
1930–31	1,500	3,500	1½–5	10,000	1–20	25
1932–33	1,000	2,500	4–8	6,000	1–55	63
1934–35	1,000	2,500	4	4,000	4–59	63
1936–39	1,000	2,500	4	4,000	4–75	79
1940	800	2,000	4.4	4,000	4.4–75+	79+

[1] Certain individuals and partnerships were subject also to an excess-profits tax in 1917.

Source: Compiled from Statistics of Income and Revenue Acts. Because of numerous changes in the detailed provisions of the latter, the rates tabulated above are not strictly comparable.

PART V. CONCLUSIONS

The existing tax structure is inequitable. It violates the principle of ability to pay. The pending tax bill, if enacted into law, will impose even greater burdens upon the great masses of the people who have the least ability to pay. Taxes which mean a reduction of an already unconscionably low standard of living are proposed to be levied, while fat profits from defense spending get off with only a relatively minor share of the total burden.

Smaller corporations are threatened by an economic pincers movement more powerful than the giant monopolies have ever been able to muster, fostered by Government itself. We face a paradox of depression and underemployment in the midst of defense prosperity. The two jaws of the Government pincers movement are priorities and defense contracts. Priorities are depriving nondefense industries of raw materials necessary for their existence. Defense contracts have gone for the most part to big business. The result is that small business, which is denied materials for normal production, must shut down, while big business gets defense contracts to replace normal production.

The pending tax bill, instead of drastically increasing the yield from an effective excess-profits tax, shifts $500,000,000

from the normal corporation tax yield (by the reversal of credits) and adds it to the estimated yield from excess-profits taxes. At the same time corporations, large and small, are to have their taxes jacked up without regard to profits made from the defense spending.

For many years the Senate and the taxpayers have been promised a genuine revision of the tax structure and each year the promise is never fulfilled.

With an additional lend-lease appropriation for aid to other countries about to be submitted to Congress which will no doubt equal, if not exceed, the additional revenues to be raised by the pending bill, it is idle to lull ourselves into the false dream that the present bill is within gunshot of being adequate to meet the fiscal crisis which confronts the Treasury now and in the foreseeable future.

To pile a hodgepodge tax bill upon the existing hodgepodge tax structure impairs the functioning of our economy. One of the essentials necessary to free production for the defense effort is a sound tax structure. Passage of the pending bill, with all of its acknowledged injustices and hardships, might be accepted if the individual and corporate taxpayers could be assured this was all they would be asked to carry. Such is not the case. They have already been informed that another and bigger tax bill is to be enacted next year. This kind of blunderbuss tax procedure threatens the entire production effort for defense. It intensifies the resentment of all kinds of taxpayers. It will tend to increase disunity instead of foster unity.

It is my firm conviction that the pending bill, which makes an intolerable tax structure infinitely worse, should be rejected and thoroughgoing revision of the tax structure based on the sound principle of ability to pay should be immediately undertaken.

The PRESIDING OFFICER. The question is on the engrossment of the amendments and the third reading of the bill.

The amendments were ordered to be engrossed and the bill to be read a third time.

The bill was read the third time.

The PRESIDING OFFICER. The question is on the passage of the bill.

Mr. LA FOLLETTE. I ask for the yeas and nays.

The yeas and nays were ordered, and the Chief Clerk proceeded to call the roll.

Mr. HOLMAN (when his name was called). I have a general pair with the junior Senator from Tennessee [Mr. STEWART]. I am advised that if he were present he would vote as I shall vote. Therefore I am at liberty to vote. I vote "yea."

Mr. McNARY (when his name was called). I am advised that if the Senator from Tennessee [Mr. McKELLAR], with whom I am paired, were present he would vote as I am about to vote. I vote "yea."

The roll call was concluded.

Mr. HATCH. My colleague the junior Senator from New Mexico [Mr. CHAVEZ] is unavoidably detained. I am authorized to say that if present he would vote "yea."

Mr. BYRD. My colleague the senior Senator from Virginia [Mr. GLASS] is detained because of illness. I am instructed to say that were he present he would vote "yea."

Mr. McNARY. The junior Senator from South Dakota [Mr. GURNEY] is unavoidably absent. If he were present, he would vote "yea" on this question.

The Senator from Kansas [Mr. REED] is necessarily absent. If present, he would vote "yea."

The roll call was concluded.

Mr. HILL. I announce that the Senator from Washington [Mr. BONE] and the Senator from New York [Mr. WAGNER] are absent from the Senate because of illness.

The Senator from South Dakota [Mr. BULOW] is detained in one of the Government departments.

The Senator from Kentucky [Mr. CHANDLER] is absent on a defense-inspection tour.

The Senators from Tennessee [Mr. McKELLAR and Mr. STEWART], the Senator from Utah [Mr. MURDOCK], the Senator from Florida [Mr. PEPPER], the Senator from New Jersey [Mr. SMATHERS], the Senator from Oklahoma [Mr. THOMAS], and the Senator from Montana [Mr. WHEELER] are necessarily absent.

I am advised that if present and voting, the Senator from Kentucky [Mr. CHANDLER], the Senators from Tennessee [Mr. McKELLAR and Mr. STEWART], the Senator from Utah [Mr. MURDOCK], the Senator from Florida [Mr. PEPPER], the Senator from New Jersey [Mr. SMATHERS], the Senator from Oklahoma [Mr. THOMAS], and the Senator from New York [Mr. WAGNER] would vote "yea."

Mr. AUSTIN. My colleague [Mr. AIKEN] is absent attending a funeral. If present, he would vote "yea" on this question.

The Senator from Pennsylvania [Mr. DAVIS] is absent on official business. If present, he would vote "yea."

The Senator from Ohio [Mr. TAFT] is necessarily absent. If present, he would vote "yea."

The Senator from Minnesota [Mr. SHIPSTEAD] has a general pair with the Senator from Virginia [Mr. GLASS].

The Senator from Indiana [Mr. WILLIS] is absent because of a personal injury.

The Senator from Minnesota [Mr. BALL] is necessarily absent.

The result was announced—yeas 67, nays 5, as follows:

YEAS—67

Adams	Clark, Mo.	Kilgore
Andrews	Connally	Lee
Austin	Danaher	Lodge
Bailey	Downey	Lucas
Bankhead	Eastland	McFarland
Barbour	Ellender	McNary
Barkley	George	Maloney
Bilbo	Gerry	Mead
Brewster	Gillette	Murray
Bridges	Green	O'Daniel
Brooks	Guffey	O'Mahoney
Brown	Hatch	Overton
Bunker	Hayden	Peace
Burton	Herring	Radcliffe
Butler	Hill	Reynolds
Byrd	Holman	Rosier
Capper	Hughes	Russell
Caraway	Johnson, Colo.	Schwartz
Smith	Truman	Wallgren
Spencer	Tunnell	Walsh
Thomas, Idaho	Tydings	Wiley
Thomas, Utah	Vandenberg	
Tobey	Van Nuys	

NAYS—5

Clark, Idaho	Langer	Nye
La Follette	McCarran	

NOT VOTING—24

Aiken	Gurney	Smathers
Ball	Johnson, Calif.	Stewart
Bone	McKellar	Taft
Bulow	Murdock	Thomas, Okla.
Chandler	Norris	Wagner
Chavez	Pepper	Wheeler
Davis	Reed	White
Glass	Shipstead	Willis

So the bill (H. R. 5417) was passed.

Mr. GEORGE. I move that the Senate insist upon its amendments, request a conference with the House thereon, and that the Chair appoint the conferees on the part of the Senate.

The motion was agreed to; and the Presiding Officer appointed Mr. GEORGE, Mr. WALSH, Mr. BARKLEY, Mr. CAPPER, and Mr. DAVIS conferees on the part of the Senate.

Mr. GEORGE. Mr. President, I ask unanimous consent that the bill be printed with the Senate amendments numbered.

The PRESIDING OFFICER. Without objection, it is so ordered.

APPORTIONMENT OF REPRESENTATIVES IN CONGRESS

Mr. BARKLEY. Mr. President, I ask unanimous consent that House bill 2665, Calendar No. 594, a bill to provide for apportioning Representatives in Congress among the several States by the equal-proportions method, be made the unfinished business.

In connection with that request, let me say that it is not intended that the bill shall be taken up for consideration of the Senate earlier than the 22d of this month. Whether it can be taken up on that day will be determined by the situation as it then exists, but it will not be taken up for consideration earlier than that date. As I understand, that is agreeable to the Senator from Arkansas [Mrs. CARAWAY] and to both Senators from Michigan.

Mr. VANDENBERG. It is agreeable, so far as I am concerned.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Kentucky?

There being no objection, the Senate proceeded to consider the bill (H. R. 2665) to provide for apportioning of Representatives in Congress among the several States by the equal-proportions method.

LEGISLATIVE PROGRAM

Mr. BARKLEY. Mr. President, I wish to make a statement for the information of the Senate. The passage of the tax bill, which has just been acted upon, disposes of the important pending business. There are some measures on the calendar, but I do not think that any of them is sufficiently urgent to require a call of the calendar within the next few days.

There is in the offing a new appropriation bill for carrying out the purposes of the Lend Lease Act. Of course, the House will have to consider that measure

first, and under the arrangement under which the House is operating the Committee on Appropriations may not take that bill up for consideration earlier than the 15th of September, assuming that by that time the Budget Director will have a recommendation for its consideration. I very seriously doubt whether that bill will be ready for the consideration of the Senate within the next 2 weeks.

In addition, there is the price-maintenance bill, concerning which the House Committee on Banking and Currency has begun hearings, but it has not completed them and will not resume them until the 15th of this month.

So for the next 2 weeks, so far as I can now see, there will be no important legislation before the Senate. Senators may act accordingly.

The Senator from Oregon [Mr. McNARY] calls my attention to the fact that there may be the possibility of a report from the conference committee on the revenue bill; but, even so, I do not know that there will be so much difficulty about adopting the conference report as to require Senators to return, although we cannot predict what the conference report will contain. Barring the possibility that the conference report on the revenue bill may be of such a nature as to require the presence of a quorum of the Senate, there will be no need for Senators to remain in the city during the next 2 weeks unless they so desire.

CONSTRUCTION OF CERTAIN PUBLIC WORKS IN THE DISTRICT OF COLUMBIA BY THE WAR DEPARTMENT

Mr. MALONEY. Mr. President, can the majority leader tell me when there is likely to be another call of the calendar?

Mr. BARKLEY. I think there will be a call immediately following the period of 2 weeks to which I have referred.

Mr. MALONEY. I wonder if the majority leader would object to my asking unanimous consent for the immediate consideration of House bill 5146, a bill to amend an act entitled "An act to authorize the Secretary of War to proceed with the construction of certain public works in connection with the War Department in the District of Columbia," approved June 15, 1938.

Mr. BARKLEY. I have no objection.

Mr. MALONEY. I should like to explain briefly that the bill passed the Senate on the call of the calendar. At the suggestion of the senior Senator from Ohio [Mr. TAFT] it was referred to the Committee on Public Buildings and Grounds. We have held hearings. The bill now comes back in the same form, with the exception of one minor amendment. I do not like to see the War Department delayed; and if the majority leader is willing I should like to ask unanimous consent for the immediate consideration of the bill.

Mr. BARKLEY. I have no objection to that procedure.

Mr. MALONEY. I am certain there will be no controversy over it, and that there will be no objection.

I ask unanimous consent that the Senate proceed to the consideration of House bill 5146, calendar 697.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Connecticut?

There being no objection, the Senate proceeded to consider the bill (H. R. 5146) to amend an act entitled "An act to authorize the Secretary of War to proceed with the construction of certain public works in connection with the War Department in the District of Columbia," approved June 15, 1938, which had been reported from the Committee on Military Affairs without amendment; and subsequently reported from the Committee on Public Buildings and Grounds with an amendment on page 2, line 5, after the words "and to" to strike out "purchase" and insert "acquire by purchase, condemnation, or otherwise"; in line 6, after the word *"Provided,"* to strike out "That the advice of the National Capital Park and Planning Commission as to the selection of the site be requested before construction herein authorized shall begin" and insert, "That the location and design of such building shall be subject to the approval of the National Capital Park and Planning Commission"; so as to make the bill read:

Be it enacted, etc., That the act entitled "An act to authorize the Secretary of War to proceed with the construction of certain public works in connection with the War Department in the District of Columbia", approved June 15, 1938, is hereby amended to read as follows: "That the Secretary of War is hereby authorized to construct in the District of Columbia a building with the utilities, accessories, and appurtenances thereto to replace the present Army Medical Library and Museum Building now located in the District of Columbia, and to acquire by purchase, condemnation, or otherwise a suitable site: *Provided,* That the location and design of such building shall be subject to the approval of the National Capital Park and Planning Commission: *Provided further,* That the total cost of the construction and acquisition of a suitable site hereby authorized shall not exceed the sum of $4,750,000."

The amendment was agreed to.

The amendment was ordered to be engrossed, and the bill to be read a third time.

The bill was read the third time, and passed.

WAIVER OF STOCKHOLDERS' LIABILITY BY FEDERAL DEPOSIT INSURANCE CORPORATION

Mr. NYE. Mr. President, the Senator from Kentucky has stated that there is nothing of urgent importance on the calendar. I could not argue that there is national importance attaching to Senate bill 1014, Calendar 695; but the issue involves an amendment to the Federal Reserve Act respecting a banking situation in my own State which is imperative to the stockholders of a bank. This measure was passed by the Senate at the last session. There has been delay in obtaining action by the Banking and Currency Committee at this session of Congress; but the bill has been reported without amendment, and I ask unanimous consent for its immediate consideration.

Mr. BARKLEY. I have no objection.

The PRESIDING OFFICER. Is there objection to the request of the Senator from North Dakota?

There being no objection, the bill (S. 1014) to amend section 12B of the Federal Reserve Act, as amended, was considered, ordered to be engrossed for a third reading, read the third time, and passed, as follows:

Be it enacted, etc., That the first proviso of paragraph (7) of subsection (1) of section 12B of the Federal Reserve Act, as amended, is amended by inserting after the words "with respect to any bank which closes after the date this paragraph as amended takes effect" the words "or which was reorganized subsequent to March 9, 1933, and closed subsequent to January 1, 1938."

STRIKE OF CUBAN SUGAR PRODUCERS AGAINST UNITED STATES CONSUMERS

Mr. O'MAHONEY. Mr. President, much as I dislike to trespass upon the time of the Senate at this moment, knowing that Members of the Senate, having finished their arduous labors on the revenue bill, are anxious to bring this session to a close, nevertheless I feel that I should call the attention of the Senate and of the country to the fact that there appears to be a strike on the part of the Cuban producers of sugar against the consumers of sugar in the United States.

Upon my return to Washington two or three days ago after a visit to the West I was amazed to learn of the conditions which are developing. In view of the fact that on next Monday the Committee on Reciprocity Information will begin its hearings upon a proposal to reduce the tariff on Cuban sugar, I desire to take this opportunity to lay the facts before the Senate.

On about the 13th or 14th of August the Office of Price Administration and Civilian Supply placed a ceiling upon the price of sugar of $3.50 a hundred, as I recall.

Earlier in the year the Government of the United States, through the Export-Import Bank, had made a loan of some $10,000,000 or $11,000,000 to the producers of sugar in Cuba to enable them to produce some 400,000 tons of sugar, upon the consideration that such sugar should be kept off the market. That extra quantity of sugar has been produced. It is available in Cuba.

Mr. ADAMS. Mr. President, will the Senator yield?

Mr. O'MAHONEY. I yield.

Mr. ADAMS. Does the Senator intend to reach back and point out the fact that the Senator from Wyoming and other western Senators——

Mr. O'MAHONEY. Including the Senator from Colorado.

Mr. ADAMS. The Senator from Wyoming and other western Senators, including the Senator from Colorado, asked to have the restriction on the acreage and production of sugar in the United States raised, and we were told that the continental surgar producer should not be permitted to produce his normal amount of sugar because of the excess supplies of sugar available.

Then, after the time for planting had passed, the Senator from Wyoming and myself succeeded in having passed through the Senate a bill to divert to the continental producers of sugar the deficit from the Philippines in order that there might be additional sugar for the consumer and in order that prices might not go up. That bill has made no headway

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77TH CONGRESS
1ST SESSION

H. R. 5417

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 5 (legislative day, SEPTEMBER 2), 1941
Ordered to be printed with the amendments of the Senate numbered

AN ACT

To provide revenue, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act, divided into titles and sections according to the following Table of Contents, may be cited as the "Revenue Act of 1941":

(1) ~~TABLE OF CONTENTS~~

~~TITLE I—INDIVIDUAL AND CORPORATION INCOME TAXES~~

~~Sec. 101. Surtax on individuals.~~
~~Sec. 102. Surtax on corporations.~~
~~Sec. 103. Income defense tax made permanent.~~
~~Sec. 104. Tax on nonresident alien individuals.~~
~~Sec. 105. Tax on foreign corporations.~~
~~Sec. 106. Withholding of tax at source.~~
~~Sec. 107. Treaty obligations.~~

Sec. 108. Reduction in pursuance of treaties of rates of tax and withholding on nonresident alien individuals resident in, and corporations organized under laws of, Western Hemisphere countries.
Sec. 109. Defense tax on personal holding companies and transfers to avoid income tax made permanent.
Sec. 110. Credit for dependents.
Sec. 111. Noninterest bearing obligations issued at discount.
Sec. 112. Information returns with respect to Federal obligations.
Sec. 113. Taxable years to which amendments applicable.

TITLE II—EXCESS PROFITS TAX

Sec. 201. Excess profits tax rates and credits.
Sec. 202. Disclaimer of credit.
Sec. 203. Cases in which no return required.
Sec. 204. Deduction of excess profits tax.
Sec. 205. New capital.
Sec. 206. Corporations engaged in mining strategic metals.
Sec. 207. Taxable years to which amendments applicable.

TITLE III—CAPITAL STOCK TAX AND DECLARED VALUE EXCESS PROFITS TAX

Sec. 301. Capital stock tax.
Sec. 302. Declared value excess profits tax—Defense tax made permanent.

TITLE IV—ESTATE AND GIFT TAXES

Sec. 401. Estate tax rates.
Sec. 402. Gift tax rates.

TITLE V—EXCISE TAXES

PART I—1932 EXCISE TAXES MADE PERMANENT

Sec. 501. 1932 excise taxes made permanent.
Sec. 502. Pipe line tax.
Sec. 503. Technical amendment.
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PART II—DEFENSE TAX RATES MADE PERMANENT (NO INCREASE IN TAX AND NO CHANGE IN BASIS OF TAX)

Sec. 521. Defense excise tax rates made permanent which are not increased by this Act.

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Title III—Capital Stock Tax and Declared Value Excess-Profits Tax

Sec. 301. Capital stock tax.
Sec. 302. Declared value excess-profits tax—Defense tax rates incorporated in rate schedule.

Title IV—Estate and Gift Taxes

Sec. 401. Estate tax rates.
Sec. 402. Deduction on account of property previously taxed.
Sec. 403. Amendment to section 812, Internal Revenue Code.
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Title V—Excise Taxes

Part I—1932 excise taxes made permanent

Sec. 501. 1932 excise taxes made permanent.
Sec. 502. Pipe line tax.
Sec. 503. Technical amendment.
Sec. 504. Bond tax.
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Part II—Defense tax rates made permanent (no increase in tax and no change in basis of tax)

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TITLE I—INDIVIDUAL AND CORPORATION INCOME TAXES

SEC. 101. SURTAX ON INDIVIDUALS.

Section 12 (b) of the Internal Revenue Code is amended to read as follows:

"(b) RATES OF SURTAX.—There shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual the surtax shown in the following table:

~~(2) "If the surtax net income is:~~	~~The surtax shall be:~~
~~Not over $2,000~~	~~5% of the surtax net income.~~
~~Over $2,000 but not over $4,000~~	~~$100, plus 8% of excess over $2,000.~~
~~Over $4,000 but not over $6,000~~	~~$260, plus 11% of excess over $4,000.~~
~~Over $6,000 but not over $8,000~~	~~$480, plus 15% of excess over $6,000.~~
~~Over $8,000 but not over $10,000~~	~~$780, plus 19% of excess over $8,000.~~
~~Over $10,000 but not over $12,000~~	~~$1,160, plus 22% of excess over $10,000.~~
~~Over $12,000 but not over $14,000~~	~~$1,600, plus 25% of excess over $12,000.~~
~~Over $14,000 but not over $16,000~~	~~$2,100, plus 28% of excess over $14,000.~~
~~Over $16,000 but not over $18,000~~	~~$2,660, plus 31% of excess over $16,000.~~
~~Over $18,000 but not over $20,000~~	~~$3,280, plus 33% of excess over $18,000.~~
~~Over $20,000 but not over $22,000~~	~~$3,940, plus 36% of excess over $20,000.~~
~~Over $22,000 but not over $26,000~~	~~$4,660, plus 39% of excess over $22,000.~~
~~Over $26,000 but not over $32,000~~	~~$6,220, plus 42% of excess over $26,000.~~
~~Over $32,000 but not over $38,000~~	~~$8,740, plus 45% of excess over $32,000.~~
~~Over $38,000 but not over $44,000~~	~~$11,440, plus 48% of excess over $38,000.~~
~~Over $44,000 but not over $50,000~~	~~$14,320, plus 50% of excess over $44,000.~~
~~Over $50,000 but not over $60,000~~	~~$17,320, plus 53% of excess over $50,000.~~
~~Over $60,000 but not over $70,000~~	~~$22,620, plus 55% of excess over $60,000.~~
~~Over $70,000 but not over $80,000~~	~~$28,120, plus 57% of excess over $70,000.~~
~~Over $80,000 but not over $90,000~~	~~$33,820, plus 59% of excess over $80,000.~~
~~Over $90,000 but not over $100,000~~	~~$39,720, plus 61% of excess over $90,000.~~
~~Over $100,000 but not over $150,000.~~	~~$45,820, plus 62% of excess over $100,000.~~

~~"If the surtax net income is:~~	~~The surtax shall be:~~
~~Over $150,000 but not over $200,000.~~	~~$76,820, plus 63% of excess over $150,000.~~
~~Over $200,000 but not over $250,000.~~	~~$108,320, plus 64% of excess over $200,000.~~
~~Over $250,000 but not over $300,000.~~	~~$140,320, plus 66% of excess over $250,000.~~
~~Over $300,000 but not over $400,000.~~	~~$173,320, plus 68% of excess over $300,000.~~
~~Over $400,000 but not over $500,000.~~	~~$241,320, plus 70% of excess over $400,000.~~
~~Over $500,000 but not over $750,000.~~	~~$311,320, plus 71% of excess over $500,000.~~
~~Over $750,000 but not over $1,000,000.~~	~~$488,820, plus 72% of excess over $750,000.~~
~~Over $1,000,000 but not over $2,000,000.~~	~~$668,820, plus 73% of excess over $1,000,000.~~
~~Over $2,000,000 but not over $5,000,000.~~	~~$1,398,820, plus 74% of excess over $2,000,000.~~
~~Over $5,000,000.~~	~~$3,618,820, plus 75% of excess over $5,000,000."~~

"If the surtax net income is:	***The surtax shall be:***
Not over $2,000	*6% of the surtax net income.*
Over $2,000 but not over $4,000	*$120, plus 9% of excess over $2,000.*
Over $4,000 but not over $6,000	*$300, plus 13% of excess over $4,000.*
Over $6,000 but not over $8,000	*$560, plus 17% of excess over $6,000.*
Over $8,000 but not over $10,000	*$900, plus 21% of excess over $8,000.*
Over $10,000 but not over $12,000	*$1,320 plus 25% of excess over $10,000.*
Over $12,000 but not over $14,000	*$1,820, plus 29% of excess over $12,000.*
Over $14,000 but not over $16,000	*$2,400, plus 32% of excess over $14,000.*
Over $16,000 but not over $18,000	*$3,040, plus 35% of excess over $16,000.*
Over $18,000 but not over $20,000	*$3,740, plus 38% of excess over $18,000.*
Over $20,000 but not over $22,000	*$4,500, plus 41% of excess over $20,000.*
Over $22,000 but not over $26,000	*$5,320, plus 44% of excess over $22,000.*
Over $26,000 but not over $32,000	*$7,080, plus 47% of excess over $26,000.*
Over $32,000 but not over $38,000	*$9,900, plus 50% of excess over $32,000.*
Over $38,000 but not over $44,000	*$12,900, plus 53% of excess over $38,000.*
Over $44,000 but not over $50,000	*$16,080, plus 55% of excess over $44,000.*

"If the surtax net income is:	*The surtax shall be:*
Over $50,000 but not over $60,000	*$19,380, plus 57% of excess over $50,000.*
Over $60,000 but not over $70,000	*$25,080, plus 59% of excess over $60,000.*
Over $70,000 but not over $80,000	*$30,980, plus 61% of excess over $70,000.*
Over $80,000 but not over $90,000	*$37,080, plus 63% of excess over $80,000.*
Over $90,000 but not over $100,000	*$43,380, plus 64% of excess over $90,000.*
Over $100,000 but not over $150,000.	*$49,780, plus 65% of excess over $100,000.*
Over $150,000 but not over $200,000.	*$82,280, plus 66% of excess over $150,000.*
Over $200,000 but not over $250,000.	*$115,280, plus 67% of excess over $200,000.*
Over $250,000 but not over $300,000.	*$148,780, plus 69% of excess over $250,000.*
Over $300,000 but not over $400,000.	*$183,280, plus 71% of excess over $300,000.*
Over $400,000 but not over $500,000.	*$254,280, plus 72% of excess over $400,000.*
Over $500,000 but not over $750,000.	*$326,280, plus 73% of excess over $500,000.*
Over $750,000 but not over $1,000,000.	*$508,780, plus 74% of excess over $750,000.*
Over $1,000,000 but not over $2,000,000.	*$693,780, plus 75% of excess over $1,000,000.*
Over $2,000,000 but not over $5,000,000.	*$1,443,780, plus 76% of excess over $2,000,000.*
Over $5,000,000.	*$3,723,780, plus 77% of excess over $5,000,000."*

(3) *SEC. 102. OPTIONAL TAX ON INDIVIDUALS WITH CERTAIN GROSS INCOME OF $3,000 OR LESS.*

(a) OPTIONAL TAX.—The Internal Revenue Code is amended by inserting after section 396 the following new Supplement:

"Supplement T—Individuals With Gross Income From Certain Sources of $3,000 or less

"SEC. 400. IMPOSITION OF TAX.

"In lieu of the tax imposed under sections 11 and 12, an individual may elect, for each taxable year, to pay the tax

shown in the following table if his gross income for such taxable year is $3,000 or less and consists wholly of one or more of the following: Salary, wages, compensation for personal services, dividends, interest, rent, annuities, or royalties:

"If the gross income is over—	But not over—	The tax shall be—	
		Single person (not head of a family)	Head of family or married person
$1	$750	$0	$0
$750	775	1	0
$775	800	2	0
$800	825	3	0
$825	850	5	0
$850	875	7	0
$875	900	9	0
$900	925	11	0
$925	950	14	0
$950	975	16	0
$975	1,000	18	0
$1,000	1,025	20	0
$1,025	1,050	22	0
$1,050	1,075	24	0
$1,075	1,100	26	0
$1,100	1,125	29	0
$1,125	1,150	31	0
$1,150	1,175	33	0
$1,175	1,200	35	0
$1,200	1,225	37	0
$1,225	1,250	39	0
$1,250	1,275	42	0
$1,275	1,300	44	0
$1,300	1,325	46	0
$1,325	1,350	48	0
$1,350	1,375	50	0
$1,375	1,400	52	0
$1,400	1,425	55	0
$1,425	1,450	57	0
$1,450	1,475	59	0
$1,475	1,500	61	0
$1,500	1,525	63	1
$1,525	1,550	65	2
$1,550	1,575	68	3
$1,575	1,600	70	5
$1,600	1,625	72	6

"If the gross income is over—	But not over—	The tax shall be—	
		Single person (not head of a family)	Head of family or married person
$1,625	$1,650	$74	$7
$1,650	1,675	76	9
$1,675	1,700	78	11
$1,700	1,725	80	13
$1,725	1,750	83	15
$1,750	1,775	85	17
$1,775	1,800	87	19
$1,800	1,825	89	22
$1,825	1,850	91	24
$1,850	1,875	93	26
$1,875	1,900	96	28
$1,900	1,925	98	30
$1,925	1,950	100	32
$1,950	1,975	102	35
$1,975	2,000	104	37
$2,000	2,025	106	39
$2,025	2,050	109	41
$2,050	2,075	111	43
$2,075	2,100	113	45
$2,100	2,125	115	48
$2,125	2,150	117	50
$2,150	2,175	119	52
$2,175	2,200	122	54
$2,200	2,225	124	56
$2,225	2,250	126	58
$2,250	2,275	128	60
$2,275	2,300	130	63
$2,300	2,325	132	65
$2,325	2,350	134	67
$2,350	2,375	137	69
$2,375	2,400	139	71
$2,400	2,425	141	73
$2,425	2,450	143	76
$2,450	2,475	145	78
$2,475	2,500	147	80
$2,500	2,525	150	82
$2,525	2,550	152	84
$2,550	2,575	154	86
$2,575	2,600	156	89
$2,600	2,625	158	91
$2,625	2,650	160	93
$2,650	2,675	163	95
$2,675	2,700	165	97
$2,700	2,725	167	99
$2,725	2,750	169	102
$2,750	2,775	172	104
$2,775	2,800	174	106
$2,800	2,825	177	108

"If the gross income is over—	But not over—	The tax shall be—	
		Single person (not head of a family)	Head of family or married person
$2,825	$2,850	$180	$110
$2,850	2,875	183	112
$2,875	2,900	186	114
$2,900	2,925	189	117
$2,925	2,950	191	119
$2,950	2,975	194	121
$2,975	3,000	197	123

In applying the above schedule to determine the tax of a taxpayer with one or more dependents there shall be subtracted from his gross income $400 for each such dependent.

"SEC. 401. RULES FOR APPLICATION OF SECTION 400.

"For the purposes of this Supplement—

"(a) Definitions—

"(1) 'Married person' means a married person living with husband or wife.

"(2) 'Dependent' means a person (other than husband or wife) dependent upon and receiving his chief support from the taxpayer if such dependent person is under eighteen years of age or is incapable of self-support because mentally or physically defective, excluding as a dependent, in the case of a head of a family, one who would be excluded under section 25 (b) (2) (B).

"(b) DETERMINATION OF STATUS.—The determination of whether a person is living with husband or wife, is a head

of a family, or is a dependent, shall be made as of the last day of the taxpayer's taxable year.

"(c) SEPARATE RETURN OF HUSBAND AND WIFE.—If a husband and wife living together file separate returns, each shall be treated as a single person.

"(d) MARRIED PERSONS NOT LIVING WITH HUSBAND OR WIFE.—A married person not a head of a family and not living with husband or wife shall be treated as a single person.

"SEC. 402. MANNER OF ELECTION.

"The election referred to in section 400 shall be considered to have been made if the taxpayer files the return prescribed for this Supplement and such election shall be irrevocable. If the taxpayer for any taxable year has filed a return computing his tax without regard to this Supplement, he may not thereafter elect for such year to compute his tax under this Supplement.

"SEC. 403. CREDITS AGAINST TAX NOT ALLOWED.

"Section 31 (relating to foreign tax credit) and section 32 (relating to credit for taxes withheld at source) shall not apply with respect to the tax imposed by this Supplement.

"SEC. 404. CERTAIN TAXPAYERS NOT ELIGIBLE.

"This Supplement shall not apply to a nonresident alien individual, or an estate or trust."

(b) CROSS-REFERENCES.—

(1) Section 11 of the Internal Revenue Code is amended by inserting at the end thereof the following: "(For alternative tax if gross income from certain sources is $3,000 or less, see section 400)".

(2) Section 12 of the Internal Revenue Code is amended by inserting at the end thereof the following:

"(g) For alternative tax if gross income from certain sources is $3,000 or less, see section 400."

(c) AMENDMENT TO SECTION 4.—Section 4 of the Internal Revenue Code is amended by inserting at the end thereof the following:

"(k) Shareholders of Personal Service Corporations,—Supplement S.

"(l) Individuals with gross income from certain sources of $3,000 or less,—Supplement T."

(4) SEC. 103. CORPORATION DEFENSE TAX RATES INCORPORATED IN RATE SCHEDULES.

(a) TAX ON CORPORATIONS IN GENERAL.—Section 13 (b) (1) and (2) of the Internal Revenue Code are amended to read as follows:

"(1) GENERAL RULE.—A tax of 24 per centum of the normal-tax net income; or

"(2) ALTERNATIVE TAX (CORPORATIONS WITH NORMAL-TAX NET INCOME SLIGHTLY MORE THAN

$25,000).—A tax of $4,250, plus 37 per centum of the amount of the normal-tax net income in excess of $25,000."

(b) TAX ON SPECIAL CLASSES OF CORPORATIONS.—Section 14 (b) of the Internal Revenue Code is amended to read as follows:

"(b) CORPORATIONS WITH NORMAL-TAX NET INCOMES OF NOT MORE THAN $25,000.—If the normal-tax net income of the corporation is not more than $25,000, and if the corporation does not come within one of the classes specified in subsection (c), (d), or (e) of this section, the tax shall be as follows:

"Upon normal-tax net incomes not in excess of $5,000, 15 per centum.

"$750 upon normal-tax net incomes of $5,000, and upon normal-tax net incomes in excess of $5,000 and not in excess of $20,000, 17 per centum in addition of such excess.

"$3,300 upon normal-tax net incomes of $20,000, and upon normal-tax net incomes in excess of $20,000, 19 per centum in addition of such excess."

(c) FOREIGN CORPORATIONS.—Section 14 (c) of the Internal Revenue Code (relating to tax on resident foreign corporations) is amended by striking out "22½0 per centum" and inserting "24 per centum".

(d) SURTAX ON CORPORATIONS IMPROPERLY ACCUMULATING SURPLUS.—The rate schedule of section 102 of the Internal Revenue Code is amended to read as follows:

"27½ per centum of the amount of the undistributed section 102 net income not in excess of $100,000, plus

"38½ per centum of the undistributed section 102 net income in excess of $100,000."

(e) MUTUAL INVESTMENT COMPANIES.—Section 362 (b) of the Internal Revenue Code (relating to tax on mutual investment companies) is amended by striking out "22½0 per centum" and inserting "24 per centum".

(5) ~~SEC. 102. SURTAX ON CORPORATIONS.~~

~~(a) GENERAL RULE.—The Internal Revenue Code is amended by inserting after section 15 a new section to read as follows:~~

~~"SEC. 16. SURTAX ON CORPORATIONS.~~

SEC. 104. SURTAX ON CORPORATIONS AND TERMINATION OF DEFENSE TAX.

(a) GENERAL RULE.—Section 15 of the Internal Revenue Code (relating to defense tax) is amended to read as follows:

"SEC. 15. SURTAX ON CORPORATIONS.

"(a) CORPORATION SURTAX NET INCOME.—For the purposes of this chapter the term 'corporation surtax net income' means the net income minus the credit for dividends

received provided in section 26 (b) (6), *computed by limiting such credit to 85 per centum of the net income in lieu of 85 per centum of the adjusted net income.*

"(b) IMPOSITION OF TAX.—There shall be levied, collected, and paid for each taxable year upon the corporation surtax net income of every corporation (except a corporation subject to the tax imposed by section 231 (a) or Supplement Q) a surtax as follows:

"Upon corporation surtax net incomes not in excess of $25,000, (7) ~~5 per centum~~ *6 per centum* of the amount thereof;

"Upon corporation surtax net incomes in excess of $25,000, (8) ~~$1,250, plus 6 per centum~~ *$1,500, plus 7 per centum* of the excess over $25,000."

(b) SURTAX ON MUTUAL INVESTMENT COMPANIES.—Supplement Q of the Internal Revenue Code (relating to mutual investment companies) is amended by inserting at the end thereof a new section to read as follows:

"SEC. 363. SURTAX ON MUTUAL INVESTMENT COMPANIES.

"(a) SUPPLEMENT Q SURTAX NET INCOME.—For the purposes of this chapter the term 'Supplement Q surtax net income' means the net income, computed without the net operating loss deduction provided in section 23 (s), minus the dividends paid during the taxable year increased by the consent dividends credit provided in section 28. For the

purposes of this subsection the amount of dividends paid shall be computed in the same manner as provided in subsections (d), (e), (f), (g), (h), and (i) of section 27 for the purpose of the basic surtax credit provided in section 27.

"(b) IMPOSITION OF TAX.—There shall be levied, collected, and paid for each taxable year upon the Supplement Q surtax net income of every mutual investment company a surtax as follows:

"Upon Supplement Q surtax net incomes not in excess of $25,000, (9) ~~5 per centum~~ *6 per centum* of the amount thereof;

"Upon Supplement Q surtax net incomes in excess of $25,000, (10) ~~$1,250, plus 6 per centum~~ *$1,500, plus 7 per centum* of the excess over $25,000."

(c) SURTAX ON BANKS.—Section 104 (b) of the Internal Revenue Code (relating to certain banks and trust companies) is amended to read as follows:

"(b) RATE OF TAX.—Banks shall be subject to tax under section 13 or section 14 (b), and under section (11) ~~16~~ *15*."

(d) SURTAX ON RESIDENT FOREIGN CORPORATIONS.—Section 231 (b) of the Internal Revenue Code (relating to certain foreign corporations) is amended to read as follows:

"(b) RESIDENT CORPORATIONS.—A foreign corpora-

tion engaged in trade or business within the United States or having an office or place of business therein shall be taxable as provided in section 14 (c) (1) and section ~~(12)~~16 *15*."

(e) SURTAX ON CORPORATIONS ENTITLED TO THE BENEFITS OF SECTION 251.—Section 251 (c) (1) of the Internal Revenue Code (relating to the tax on corporations entitled to the benefits of section 251) is amended to read as follows:

"(1) CORPORATION TAX.—A domestic corporation entitled to the benefits of this section shall be subject to tax under section 13 or section 14 (b), and under section ~~(13)~~16 *15*."

(f) SURTAX ON CHINA TRADE ACT CORPORATIONS.—

(1) SURTAX.—Section 261 (a) of the Internal Revenue Code (relating to the tax on China Trade Act corporations) is amended to read as follows:

"(a) CORPORATION TAX.—A corporation organized under the China Trade Act, 1922, 42 Stat. 849 (U. S. C., 1934 ed., title 15, chap. 4), shall be subject to tax under section 13 or section 14 (b), and under section ~~(14)~~16 *15*."

(2) CREDIT OF CHINA TRADE ACT CORPORATIONS.—Section 262 (a) of the Internal Revenue Code (relating to credit against net income of China Trade Act corporations) is amended by striking out "sections 13, 14, and 600" and

inserting in lieu thereof "sections 13, 14, ~~(15)~~ ~~16~~ *15*, and 600"; and by striking out "section 13 or 14" wherever occurring therein and inserting in lieu thereof "section 13, 14, or ~~(16)~~ ~~16~~ *15*".

~~(17) SEC. 103. INCOME DEFENSE TAX MADE PERMANENT.~~

~~(a) The heading of section 15 of the Internal Revenue Code is amended to read as follows:~~

~~"SEC. 15. DEFENSE TAX."~~

~~(b) The first sentence of section 15 of the Internal Revenue Code is amended to read as follows:~~

~~"In the case of any taxpayer, the amount of tax under this chapter for any taxable year beginning after December 31, 1940, shall be the tax computed without regard to this section, increased by 10 per centum; except that in the case of a corporation the increase shall be limited to 10 per centum of the tax computed without regard to sections 16 and 363 and without regard to the amendments made by section 101 (a), (b), and (c) of the Second Revenue Act of 1940."~~

SEC. ~~(18) 104~~ *105.* TAX ON NONRESIDENT ALIEN INDIVIDUALS.

(a) TAX IN GENERAL.—Section 211 (a) (1) (A) of the Internal Revenue Code (relating to tax on nonresident alien individuals not engaged in trade or business within the United States and not having an office or place of business

therein) is amended by striking out "15 per centum" and inserting in lieu thereof "~~(19) 25~~ *27½* per centum".

(b) AGGREGATE RECEIPTS MORE THAN ~~(20) $23,800~~ *$23,000*.—Section 211 (a) (2) of the Internal Revenue Code is amended to read as follows:

"(2) AGGREGATE MORE THAN ~~(21) $23,800~~ *$23,000*.—The tax imposed by paragraph (1) shall not apply to any individual if the aggregate amount received during the taxable year from the sources therein specified is more than ~~(22) $23,800~~ *$23,000*."

(c) TAX WHERE GROSS INCOME OF MORE THAN ~~(23) $23,800~~ *$23,000*.—Section 211 (c) of the Internal Revenue Code (relating to tax on certain nonresident alien individuals) is amended by striking out "$24,000" wherever occurring therein and inserting in lieu thereof "~~(24) $23,800~~ *$23,000*"; and by striking out "15 per centum" and inserting in lieu thereof "~~(25) 25~~ *27½* per centum".

SEC. ~~(26) 105~~ *106*. TAX ON FOREIGN CORPORATIONS.

Section 231 (a) of the Internal Revenue Code (relating to tax on nonresident foreign corporations) is amended by striking out "15 per centum" and inserting in lieu thereof "~~(27) 25~~ *27½* per centum".

SEC. ~~(28) 106~~ *107*. WITHHOLDING OF TAX AT SOURCE.

(a) Sections 143 (a) and (b) and 144 of the Internal Revenue Code are amended by striking out "15 per centum"

wherever occurring therein and inserting in lieu thereof "27½ per centum".

(b) Section 143 (h) of the Internal Revenue Code is repealed.

(c) Subsections (a) and (b) of this section shall apply only with respect to the period beginning with the tenth day after the date of the enactment of this Act.

SEC. (29) ~~107~~ *108.* TREATY OBLIGATIONS.

No amendment made by this title shall apply in any case where its application would be contrary to any treaty obligation of the United States.

SEC. (30) ~~108~~ *109.* REDUCTION IN PURSUANCE OF TREATIES OF RATES OF TAX AND WITHHOLDING ON NONRESIDENT ALIEN INDIVIDUALS RESIDENT IN, AND CORPORATIONS ORGANIZED UNDER LAWS OF, WESTERN HEMISPHERE COUNTRIES.

(a) Section 143 (a) (1) (relating to withholding of tax on tax-free covenant bonds); section 143 (b) (relating to withholding of tax on dividends, rents, etc.); section 144 (relating to payment of corporation income tax at source); section 211 (a) (1) (relating to tax on nonresident alien individuals); and section 231 (a) (1) (relating to tax on nonresident foreign corporations) of the Internal Revenue Code are amended by striking out "a contiguous country"

and inserting in lieu thereof "any country in North, Central, or South America, or in the West Indies, or of Newfoundland".

(b) Section 211 (a) (3) of the Internal Revenue Code is amended to read as follows:

"(3) RESIDENTS OF CERTAIN COUNTRIES.—The provisions of paragraph (2) shall not apply to a resident of any country in North, Central, or South America, or in the West Indies, or of Newfoundland, so long as there is in effect with such country a treaty which provides otherwise."

(c) Section 211 (c) (4) of the Internal Revenue Code is amended to read as follows:

"(4) This subsection shall not apply to a resident of any country in North, Central, or South America, or in the West Indies, or of Newfoundland, so long as there is in effect with such country a treaty which provides otherwise."

~~(31) SEC. 109. DEFENSE TAX ON PERSONAL HOLDING COMPANIES AND TRANSFERS TO AVOID INCOME TAX MADE PERMANENT.~~

~~(a) PERSONAL HOLDING COMPANIES.—Section 500 (b) of the Internal Revenue Code is amended by striking out "and before January 1, 1945," and by striking out in the heading "FOR FIVE YEARS".~~

~~(b) TRANSFERS TO AVOID INCOME TAX.—Section 1250 (b) of the Internal Revenue Code is amended by striking out "and before July 1, 1945" and by striking out in the heading "FOR FIVE YEARS".~~

SEC. 110. DEFENSE TAX RATES ON PERSONAL HOLDING COMPANIES AND TRANSFERS TO AVOID INCOME TAX INCORPORATED IN RATE SCHEDULES.

(a) PERSONAL HOLDING COMPANIES.—Section 500 of the Internal Revenue Code (relating to tax on personal holding companies) is amended as follows:

(1) By striking out the heading "(a) GENERAL RULE.—";

(2) By amending the rate schedule to read as follows:

"(1) 71½ per centum of the amount thereof not in excess of $2,000; plus

"(2) 82½ per centum of the amount thereof in excess of $2,000."; and

(3) By repealing subsection (b) (relating to defense tax for five years).

(b) TRANSFERS TO AVOID INCOME TAX.—Section 1250 of the Internal Revenue Code (relating to tax on transfers to avoid income tax) is amended as follows:

(1) By striking out the heading "(a) GENERAL RULE.—";

(2) By striking out "25 per centum" and inserting "27½ per centum"; and

(3) By repealing subsection (b) (relating to defense tax for five years).

(32) *SEC. 111. PERSONAL EXEMPTION.*

(a) Section 25 (b) (1) of the Internal Revenue Code is amended to read as follows:

"(1) PERSONAL EXEMPTION.—In the case of a single person or a married person not living with husband or wife, a personal exemption of $750; or in the case of the head of a family or a married person living with husband or wife, a personal exemption of $1,500. A husband and wife living together shall receive but one personal exemption. The amount of such personal exemption shall be $1,500. If such husband and wife make separate returns, the personal exemption may be taken by either or divided between them, except that if one spouse makes a return under Supplement T, the personal exemption of the other spouse shall be $750."

(b) Section 214 of the Internal Revenue Code (relating to personal exemption of nonresident alien individuals) is amended by striking out "$800" and inserting in lieu thereof "$750".

(c) Section 251 (f) of the Internal Revenue Code (relating to personal exemption of citizens entitled to benefits

of section 251) is amended by striking out "$800" and inserting in lieu thereof "750".

Page 12, after line 11, insert:

(33) *SEC. 112. RETURNS OF INCOME TAX.*

(a) INDIVIDUAL RETURNS.—Section 51 (a) of the Internal Revenue Code is amended to read as follows:

"(a) REQUIREMENT.—The following individuals shall each make under oath a return stating specifically the items of his gross income and the deductions and credits allowed under this chapter and such other information for the purpose of carrying out the provisions of this chapter as the Commissioner with the approval of the Secretary may by regulations prescribe—

"(1) Every individual who is single or who is married but not living with husband or wife, if having a gross income for the taxable year of $750 or over.

"(2) Every individual who is married and living with husband or wife, if no joint return is made under subsection (b) and if—

"(A) Such individual has for the taxable year a gross income of $1,500 or over, and the other spouse has no gross income; or

"(B) Such individual and his spouse each has for the taxable year a gross income and the aggregate gross income is $1,500 or over."

(b) FIDUCIARY RETURNS.—Section 142 (a) of the Internal Revenue Code is amended to read as follows:

"(a) REQUIREMENT OF RETURN.—Every fiduciary (except a receiver appointed by authority of law in possession of part only of the property of an individual) shall make under oath a return for any of the following individuals, estates, or trusts for which he acts, stating specifically the items of gross income thereof and the deductions and credits allowed under this chapter and such other information for the purpose of carrying out the provisions of this chapter as the Commissioner with the approval of the Secretary may by regulations prescribe—

"(1) Every individual having a gross income for the taxable year of $750 or over, if single, or if married and not living with husband or wife;

"(2) Every individual having a gross income for the taxable year of $1,500 or over, if married and living with husband or wife;

"(3) Every estate the gross income of which for the taxable year is $750 or over;

"(4) Every trust the net income of which for the taxable year is $100 or over, or the gross income of which for the taxable year is $750 or over, regardless of the amount of the net income; and

"(5) Every estate or trust of which any beneficiary is a nonresident alien."

(c) INFORMATION RETURNS.—Section 147 (a) of the Internal Revenue Code (relating to information at the source) is amended by striking out "$800" wherever occurring therein and inserting in lieu thereof "$750".

SEC. ~~(34) 110~~ *113.* CREDIT FOR DEPENDENTS.

Section 25 (b) (2) of the Internal Revenue Code (relating to credit for dependents) is amended to read as follows:

"(2) CREDIT FOR DEPENDENTS.—

"(A) Allowance in General.—$400 for each person (other than husband or wife) dependent upon and receiving his chief support from the taxpayer if such dependent person is under eighteen years of age or is incapable of self-support because mentally or physically defective.

"(B) Exception for Certain Heads of Families.—If the taxpayer would not occupy the status of head of a family except by reason of there being one or more dependents for whom he would be entitled to credit under subparagraph (A), the credit under such subparagraph shall be disallowed with respect to one of such dependents."

SEC. ~~(35) 111~~ *114.* NONINTEREST-BEARING OBLIGATIONS ISSUED AT DISCOUNT.

Section 42 of the Internal Revenue Code (relating to period in which items of gross income are included) is amended by inserting before the first sentence thereof "(a) GENERAL RULE.—", and by inserting at the end of such section a new subsection to read as follows:

"(b) NONINTEREST-BEARING OBLIGATIONS ISSUED AT DISCOUNT.—If, in the case of a taxpayer owning any noninterest-bearing obligation issued at a discount and redeemable for fixed amounts increasing at stated intervals, the increase in the redemption price of such obligation occurring in ~~(36) such~~ *the* taxable year does not (under the method of accounting used in computing his net income) constitute income to him in such year, such taxpayer may, at his election made in his return for any taxable year beginning after December 31, 1940, treat such increase as income received in such taxable year. If any such election is made with respect to any such obligation, it shall apply also to all such obligations owned by the taxpayer at the beginning of the first taxable year to which it applies and to all such obligations thereafter acquired by him and shall be binding for all subsequent taxable years, unless upon application by the taxpayer the Commissioner permits him, subject to such conditions as the

Commissioner deems necessary, to change to a different method. In the case of any such obligations owned by the taxpayer at the beginning of the first taxable year to which his election applies, the increase in the redemption price of such obligations occurring between the date of acquisition and the first day of such taxable year shall also be treated as income received in such taxable year."

(37) *SEC. 115. SHORT-TERM OBLIGATIONS ISSUED ON A DISCOUNT BASIS.*

(a) DISCOUNT ACCRUED AT MATURITY.—Section 42 of the Internal Revenue Code (relating to period in which items of gross income are included) is amended by inserting at the end thereof the following new subsection:

"(c) SHORT-TERM OBLIGATIONS ISSUED ON DISCOUNT BASIS.—In the case of any obligation of the United States or any of its possessions, or of a State or Territory, or any political subdivision thereof, or of the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding one year from the date of issue, the amount of discount at which such obligation is originally sold shall not be considered to accrue until the date on which such obligation is paid at maturity, sold, or otherwise disposed of."

(b) CAPITAL GAIN RULE NOT APPLICABLE.—Section

117 (a) (1) of the Internal Revenue Code (relating to definition of capital assets) is amended by striking out the semicolon at the end thereof and inserting in lieu thereof the following: ", or an obligation of the United States or any of its possessions, or of a State or Territory, or any political subdivision thereof, or of the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding one year from the date of issue;".

(c) EFFECTIVE DATE OF AMENDMENTS.—The amendments made by this section shall be applicable with respect to taxable years ending after February 28, 1941.

SEC. ~~(38) 112~~ *116.* INFORMATION RETURNS WITH RESPECT TO FEDERAL OBLIGATIONS.

(a) Section 147 (d) of the Internal Revenue Code (exempting interest on obligations of the United States from information requirement) is repealed.

(b) Section 147 (b) of the Internal Revenue Code is amended by striking out "and (2)" and inserting in lieu thereof "(2) in the case of payments of interest upon obligations of the United States or any agency or instrumentality thereof, and (3)".

(c) Subsections (a) and (b) of this section shall take effect upon the day after the date of the enactment of this Act.

(39) *SEC. 117. ALIMONY AND SEPARATE MAINTENANCE PAYMENTS.*

(a) AMOUNT INCLUDIBLE IN GROSS INCOME.—Section 22 (relating to definition of gross income) of the Internal Revenue Code is amended by inserting at the end thereof the following new subsection:

"(k) ALIMONY, ETC., INCOME.—In the case of an individual who is divorced or legally separated from a spouse under a decree of divorce or of separate maintenance, periodic payments received (subsequent to such decree) in discharge of, or attributable to property transferred in discharge of, a legal obligation imposed upon or incurred by such individual's spouse or former spouse under such decree or under a written instrument incident to such divorce or separation shall be includible in the gross income of such individual, and such amounts received as are attributable to property so transferred shall not be includible in the gross income of such other spouse or former spouse. This subsection shall not apply to that part of any such periodic payment which, by the terms of the decree or written instrument, is specifically designated as a sum payable for the support of minor children of the spouses. Installment payments discharging a part of an obligation the principal sum of which is, in terms of money or property, specified in the decree or instrument, shall not be considered periodic payments for the purposes of this

subsection. (For amount includible under this subsection in case the property is held in trust, see section 171.)"

(b) DEDUCTION FOR AMOUNTS PAID.—Section 23 of the Internal Revenue Code (relating to deductions from gross income) is amended by inserting at the end thereof the following new subsection:

"(u) ALIMONY, ETC., PAYMENTS.—In the case of an individual, amounts includible under section 22 (k) in the gross income of a spouse (or former spouse) of such individual, payment of which is made within the individual's taxable year. If the amount of any such payment is, under section 22 (k) or section 171, excluded from such individual's gross income, no deduction shall be allowed with respect to such payment under this subsection."

(c) INCOME FROM TRUSTS.—Supplement E of the Internal Revenue Code is amended by inserting at the end thereof the following new section:

"SEC. 171. TRUST INCOME IN CASE OF DIVORCE, ETC.

"There shall be included in the gross income of an individual who is divorced or legally separated under a decree of divorce or of separate maintenance the amount of the income of any trust such individual is entitled to receive which, except for the provisions of this section, would be includible in the gross income of such individual's spouse or former spouse, and such amount shall not, despite section 166, section

167, or any other provision of this chapter, be includible in the gross income of such spouse or former spouse. This section shall not apply to that part of any such periodic payment which, by the terms of the decree or trust instrument, is specifically designated as a sum payable for the support of minor children of the spouses."

(d) CREDIT FOR DEPENDENTS.—Section 25 (b) (2) of the Internal Revenue Code (relating to credit for dependents) is amended by inserting at the end thereof the following: "A payment to an individual's spouse or former spouse which is includible under section 22 (k) or section 171 in the gross income of such spouse or former spouse shall not be considered a payment by such individual for the support of minor children of such persons."

(e) EFFECTIVE DATE OF AMENDMENTS.—The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1941.

(40) *SEC. 118. EXTENSION OF TIME OF ORDERS OF SECURITIES AND EXCHANGE COMMISSION.*

Section 373 (a) of the Internal Revenue Code (relating to the definition of orders of the Securities and Exchange Commission with respect to which Supplement R applies) is amended to read as follows:

"(a) The term 'order of the Securities and Exchange Commission' means an order (1) issued after May 28, 1938,

and prior to January 1, 1943, by the Securities and Exchange Commission to effectuate the provisions of section 11 (b) of the Public Utility Holding Company Act of 1935, 49 Stat. 820 (U. S. C., Supp. III, Title 15, section 79 (b)), or (2) issued by the Commission subsequent to December 31, 1942, in which it is expressly stated that an order of the character specified in clause (1) is amended or supplemented, and (3) which has become final in accordance with law."

(41) *SEC. 119. DEDUCTIONS FROM GROSS INCOME.*

Section 23 (a) (1) of the Internal Revenue Code is amended by inserting after the words "taxable year" the words "in conserving and conducting the business affairs of the taxpayer;"

SEC. (42) ~~113~~ *120.* TAXABLE YEARS TO WHICH AMENDMENTS APPLICABLE.

The amendments made by this title (except sections (43) ~~106 and 112~~ *107, 115, 116, and 117*) shall be applicable only with respect to taxable years beginning after December 31, 1940.

TITLE II—EXCESS PROFITS TAX

SEC. 201. EXCESS PROFITS TAX RATES AND CREDITS.

(a) RATES.—Section 710 (a) of the Internal Revenue Code is amended to read as follows:

"(a) IMPOSITION.—

"(1) GENERAL RULE.—There shall be levied, col-

lected, and paid, for each taxable year, on the adjusted excess profits net income, as defined in subsection (b), of every corporation (except a corporation exempt under section 727) the tax shown in the following table:

"If the adjusted excess profits net income is:	The tax shall be:
Not over $20,000	35% of the adjusted excess profits net income.
Over $20,000, but not over $50,000	$7,000, plus 40% of excess over $20,000.
Over $50,000, but not over $100,000	$19,000, plus 45% of excess over $50,000.
Over $100,000, but not over $250,000.	$41,500, plus 50% of excess over $100,000.
Over $250,000, but not over $500,000.	$116,500, plus 55% of excess over $250,000.
Over $500,000	$254,000, plus 60% of excess over $500,000.

~~(44)~~ "~~(2) SPECIAL RULE IN CERTAIN CASES WHERE INVESTED CAPITAL CREDIT IS USED. In the case of a taxpayer entitled to have its excess profits credit computed under either section 713 (income credit) or section 714 (invested capital credit), if the use of the credit under section 714 is more advantageous to the taxpayer, the tax imposed by this section shall be the sum of—~~

"~~(A) an amount determined under paragraph (1) of this subsection with the use of the credit provided in section 714, plus—~~

"~~(B) 10 per centum of the amount, if any, by which—~~

"~~(i) the adjusted excess profits net income~~

~~computed with the use of the credit under section 713 and with the excess profits credit carryover which would be available for the taxable year if the excess profits credit applicable to each of the preceding taxable years for which tax is imposed by this subchapter had been the excess profits credit computed under section 713, exceeds~~

~~"(ii) the adjusted excess profits net income computed with the use of the credit under section 714.~~

~~"(3) LIMITATION ON APPLICATION OF SPECIAL RULE.—If the tax under paragraph (2) is greater than the amount determined, with the use of the credit provided in section 713, under paragraph (1) of this subsection, the tax shall be the amount so determined under paragraph (1).~~

"~~(45)~~*(4) (2)* APPLICATION OF RATES IN CASE OF CERTAIN EXCHANGES.—If the taxpayer's highest bracket amount for the taxable year computed under section 752 (relating to certain exchanges) is less than $500,000, then in the application of the table in paragraph (1) of this subsection to such taxpayer, in lieu of each amount, other than the percentages, specified in such table, there shall be substituted an amount which bears the same

ratio to the amount so specified as the highest bracket amount so computed bears to $500,000."

(b) EXCESS PROFITS CREDIT—BASED ON INVESTED CAPITAL.—Section 714 of the Internal Revenue Code, as amended, is amended to read as follows:

"SEC. 714. EXCESS PROFITS CREDIT—BASED ON INVESTED CAPITAL.

"The excess profits credit, for any taxable year, computed under this section, shall be the amount shown in the following table:

"If the invested capital for the taxable year, determined under section 715, is:	The credit shall be:
Not over $5,000,000	8% of the invested capital.
Over $5,000,000	$400,000, plus 7% of the excess over $5,000,000."

~~(46) SEC. 202. DISCLAIMER OF CREDIT.~~

~~(a) Section 712 (c) of the Internal Revenue Code (relating to disclaimers of excess profits credit) is amended to read as follows:~~

~~"(c) EFFECT OF DISCLAIMER OF CREDIT.—If the taxpayer states in its return for the taxable year under this subchapter that it disclaims the use of the credit computed under section 714, such credit shall not, for the purposes of the internal revenue laws, be applicable to the computation of the tax under this subchapter for such taxable year."~~

~~(b) The last sentence of section 729 (b) (1) is amended to read as follows: "If the taxpayer states in such~~

return that it disclaims the use of the credit computed under section 714 in the computation of the tax under this subchapter for the taxable year, the computation and information based on such credit may be omitted from the return."

(c) Section 741 (b) of the Internal Revenue Code (relating to disclaimers of excess-profits credit) is amended to read as follows:

"(b) EFFECT OF DISCLAIMER OF CREDIT.—If the taxpayer states in its return for the taxable year under this subchapter that it disclaims the use of the credit computed under section 714, such credit shall not, for the purposes of the internal revenue laws, be applicable to the computation of the tax under this subchapter for such taxable year."

(47) SEC. 203. CASES IN WHICH NO RETURN REQUIRED.

Section 729 (b) (2) of the Internal Revenue Code is amended to read as follows:

"(2) NO RETURN REQUIRED.—Notwithstanding subsection (a), no return under section 52 (a) shall be required to be filed under this subchapter:

"(A) By any taxpayer entitled to have its excess-profits credit computed under either section 713 or section 714 for any taxable year for which its excess-profits net income, computed with the adjustments provided in section 711 (a) (1) and

~~placed on an annual basis as provided in section 711 (a) (3), is not greater than $5,000; or~~

~~"(B) By any taxpayer not entitled to have its excess-profits credit computed under section 713 for any taxable year for which its excess-profits net income, computed with the adjustments provided in section 711 (a) (2) and placed on an annual basis as provided in section 711 (a) (3), is not greater than $5,000."~~

SEC. ~~(18)~~ 204 *202.* DEDUCTION OF EXCESS-PROFITS TAX.

(a) AMENDMENT OF SECTION 23 (c).—Section 23 (c) of the Internal Revenue Code (relating to the deduction of taxes in computing net income) is amended to read as follows:

"(c) TAXES GENERALLY.—

"(1) ALLOWANCE IN GENERAL.—Taxes paid or accrued within the taxable year, except—

"(A) Federal income taxes;

"(B) war-profits and excess-profits taxes imposed by Title II of the Revenue Act of 1917, Title III of the Revenue Act of 1918, Title III of the Revenue Act of 1921, section 216 of the National Industrial Recovery Act, or section 702 of the Revenue Act of 1934, or by any such provisions as amended or supplemented;

"(C) income, war-profits, and excess-profits taxes imposed by the authority of any foreign country or possession of the United States; but this deduction shall be allowed in the case of a taxpayer who does not signify in his return his desire to have to any extent the benefits of section 131 (relating to credit for taxes of foreign countries and possessions of the United States);

"(D) estate, inheritance, legacy, succession, and gift taxes; and

"(E) taxes assessed against local benefits of a kind tending to increase the value of the property assessed; but this paragraph shall not exclude the allowance as a deduction of so much of such taxes as is properly allocable to maintenance or interest charges.

"(2) EXCESS-PROFITS TAX UNDER CHAPTER 2E—SPECIAL RULES.—For the purposes of this subsection, in the case of the excess-profits tax imposed by Subchapter E of Chapter 2—

"(A) The deduction shall be limited to the tax imposed for the taxable year, but any portion of such tax paid after the taxable year shall be considered as having been paid within the taxable year;

"(B) No reduction in such tax shall be made by

reason of the credit for income, war-profits, or excess-profits taxes paid to any foreign country or possession of the United States;

"(C) Such tax shall be computed without regard to the adjustments provided in section 734; and

"(D) Such tax, in the case of a consolidated return under section 730, shall be allocated to the members of the affiliated group under regulations prescribed by the Commissioner, with the approval of the Secretary."

(b) AMENDMENT OF SECTION 102 (d).—Section 102 (d) (1) (A) of the Internal Revenue Code (relating to the deduction of taxes in computing section 102 net income) is amended to read as follows:

"(A) Taxes.—Federal income, war-profits, and excess-profits taxes (other than the tax imposed by Subchapter E of Chapter 2 for a taxable year beginning after December 31, 1940) paid or accrued during the taxable year, to the extent not allowed as a deduction by section 23, but not including the tax imposed by this section or a corresponding section of a prior income-tax law."

(c) COMPUTATION OF EXCESS-PROFITS NET INCOME.—

(1) TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1940.—

(A) Section 711 (a) (1) (A) (relating to adjustment for income taxes in computing excess-profits net income under income credit) is amended to read as follows:

"(A) Income Taxes.—In computing such normal-tax net income the deduction for the tax imposed by this subchapter shall not be allowed;".

(B) Section 711 (a) (2) (C) (relating to adjustment for income taxes in computing excess-profits net income under invested capital credit) is amended to read as follows:

"(C) Income Taxes.—In computing such normal-tax net income the deduction for the tax imposed by this subchapter shall not be allowed;".

(2) TAXABLE YEARS IN THE BASE PERIOD.—Section 711 (b) (1) (A) (relating to adjustment for income taxes for taxable years in the base period) is repealed.

(d) COMPUTATION OF CHARITABLE, ETC., DEDUCTIONS.—

(1) Section 711 (a) (1) of the Internal Revenue Code is amended by inserting at the end thereof the following new subparagraph:

"(G) Computation of Charitable, Etc., Deductions.—In determining any deduction the amount of which is limited to a percentage of the taxpayer's net income (or net income from the property), such net income (or net income from the property) shall be computed without regard to the deduction on account of the tax imposed by this subchapter."

(2) Section 711 (a) (2) of the Internal Revenue Code is amended by adding at the end thereof the following new subparagraph:

"(I) Computation of Charitable, Etc., Deductions.—In determining any deduction the amount of which is limited to a percentage of the taxpayer's net income (or net income from the property), such net income (or net income from the property) shall be computed without regard to the deduction on account of the tax imposed by this subchapter."

(e) Excess-Profits Credit Carry-Over.—Section 710 (c) (1) (defining the unused excess-profits credit) is amended by adding at the end thereof a new sentence to read as follows: "For such purpose the excess-profits credit and the excess-profits net income for any taxable year beginning in 1940 shall be computed under the law applicable to taxable years beginning in 1941.".

(f) Equity Invested Capital.—Section 718 (c)

(3) (relating to the computation of earnings and profits for invested capital purposes) is amended by adding after the word "subchapter" the words "or Chapter 1".

(g) ADJUSTMENT OF ABNORMAL BASE PERIOD NET INCOME.—Section 722 (c) (placing a limit on the amount of relief afforded under section 722) is amended by adding at the end thereof a new sentence to read as follows: "For the purposes of this subsection and subsection (d) the taxpayer's normal-tax net income shall be computed without deduction of the tax imposed by this subchapter.".

(h) NONDEDUCTIBILITY OF EXCESS PROFITS TAX IN COMPUTATION OF DECLARED VALUE EXCESS PROFITS TAX.—Section 602 of the Internal Revenue Code is amended by striking out "computed without the deduction of the tax imposed by section 600" and inserting in lieu thereof "computed without the deduction of the tax imposed by section 600 or the tax imposed by Subchapter E of Chapter 2.

~~(49) (i) ADJUSTED DECLARED VALUE.—~~

~~(1) Section 1202 (b) (1) (C) of the Internal Revenue Code is amended to read as follows:~~

~~"(C) its net income, computed without the deduction of the tax imposed by Subchapter E of Chapter 2,".~~

~~(2) Section 1202 (b) (1) (iii) is amended to read as follows:~~

~~"(iii) the excess of the deductions allowable for income tax purposes (not including the deduction for the tax imposed by Subchapter E of Chapter 2) over its gross income."~~

SEC. ~~(50) 205~~ *203.* NEW CAPITAL.

Section 718 (a) of the Internal Revenue Code is amended by striking out "and" at the end of paragraph (4); by striking out the period at the end of paragraph (5) and inserting in lieu thereof a semicolon and the word "and"; and by inserting at the end thereof the following:

"(6) NEW CAPITAL.—An amount equal to 25 per centum of the new capital for such day. The term 'new capital' for any day means so much of the amounts of money or property includible for such day under paragraphs (1) and (2) as was previously paid in during a taxable year beginning after December 31, 1940, and so much of the distributions in stock includible for such day under paragraph (3) as was previously made during a taxable year beginning after December 31, 1940, subject to the following limitations:

"(A) There shall not be included money or property paid in by a corporation in an exchange to which section 112 (b) (3), (4), or (5), or so much of section 112 (c), (d), or (e) as refers to section 112 (b) (3), (4), or (5) is applicable

(51)*(or would be applicable except for section 371 (g))*, or would have been applicable if the term 'control' had been defined in section 112 (h) to mean the ownership of stock possessing more than 50 per centum of the total combined voting power of all classes of stock entitled to vote or more than 50 per centum of the total value of shares of all classes of stock.

"(B) There shall not be included money or property paid in to the taxpayer by a transferor corporation if immediately after such transaction the transferor and the taxpayer are members of the same controlled group. As used in this subparagraph and subparagraph (C), a controlled group means one or more chains of corporations connected through stock ownership with a common parent corporation if (i) more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock, of each of the corporations (except the common parent corporation) is owned directly by one or more of the other corporations, and (ii) the common parent corporation owns directly more than 50 per centum

of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock, of at least one of the other corporations.

"(C) There shall not be included a distribution in stock described in paragraph (3) made to another corporation, if immediately after the distribution the taxpayer and the distributee are members of the same controlled group.

"(D) Increase in Inadmissible Assets.—The new capital for any day of the taxable year, computed without the application of subparagraph (E), shall be reduced by the excess, if any, of the amount computed under section 720 (b) with respect to inadmissible assets held on such day, over the amount computed under section 720 (b) with respect to inadmissible assets held on the first day of the taxpayer's first taxable year beginning after December 31, 1940. For the purposes of this subparagraph, in determining whether obligations which are described in section 22 (b) (4) any part of the interest from which is excludible from gross income or allowable as a credit against net income are to be treated as admissible or inadmissible assets, such obligations

shall be treated in the same manner as they are treated for the taxable year for which tax under this subchapter is being computed.

"(E) Maximum New Capital Allowable.—The new capital for any day of the taxable year shall not be more than the amount, if any, by which—

"(i) the sum of the equity invested capital (computed without regard to this paragraph) and the borrowed capital (as defined in section 719 (a)) of the taxpayer as of such day, reduced by the amount of money or property paid in which is excluded by reason of the limitation of subparagraph (A) or (B) of this paragraph, exceeds

"(ii) the sum of such equity invested capital and borrowed capital as of the beginning of the first day of such taxpayer's first taxable year beginning after December 31, 1940, reduced by the amount, if any, by which the accumulated earnings and profits as of such first day of such first taxable year exceed the accumulated earnings and profits (computed without regard to distributions made in taxable years beginning after December 31, 1940) as of the beginning

of the first day of the taxable year for which the tax under this subchapter is being (52)~~computed.~~" *computed.*

(53)"*(F) Reduction on Account of Distributions Out of Pre-1941 Accumulated Earnings and Profits.—The new capital for any day of the taxable year, computed without the application of subparagraph (E), shall be reduced by the amount which, after the beginning of the first taxable year which begins after December 31, 1940, has been distributed out of earnings and profits accumulated prior to the beginning of such first taxable year.*"

(54)~~SEC. 206. CORPORATIONS ENGAGED IN MINING STRATEGIC METALS.~~

~~Section 731 of the Internal Revenue Code (exempting from excess profits tax income derived from mining certain metals) shall not apply with respect to any taxable year beginning after December 31, 1940.~~

SEC. (55)~~207~~ *204.* **TAXABLE YEARS TO WHICH AMENDMENTS APPLICABLE.**

The amendments made by this title shall be applicable only with respect to taxable years beginning after December 31, 1940.

TITLE III—CAPITAL STOCK TAX AND DECLARED VALUE EXCESS-PROFITS TAX

SEC. 301. CAPITAL STOCK TAX.

(a) INCREASE IN RATE OF TAX.—Section 1200 (a) and (b) of the Internal Revenue Code (relating to rate of capital stock tax) is amended by striking out "$1" and inserting in lieu thereof "$1.25" (56)*and by striking out the word "adjusted" wherever occurring therein.*

(b) DEFENSE TAX RATE.—Section 1200 (c) of the Internal Revenue Code is repealed.

(57)*(c) ANNUAL DECLARATION OF VALUE.—Section 1202 of the Internal Revenue Code (relating to declaration of value) is amended to read as follows:*

"SEC. 1202. DECLARED VALUE.

"(a) DECLARATION OF VALUE.—The declared value shall be the value as declared by the corporation in its return for the year (which declaration of value cannot be amended). The value declared by the corporation in its return shall be as of the close of its last income tax taxable year ending with or prior to the close of the capital stock tax taxable year.

"(b) CREDIT FOR CHINA TRADE ACT CORPORATIONS.—For the purpose of the tax imposed by section 1200 there shall be allowed in the case of a corporation organized under the China Trade Act, 1922, 42 Stat. 849 (U. S. C., Title 15 c. 4), as a credit against the declared

value of its capital stock, an amount equal to the proportion of such declared value which the par value of the shares of stock of the corporation, owned on the last day of the taxable year by (1) persons resident in China, the United States, or possessions of the United States, and (2) individual citizens of the United States or China wherever resident, bears to the par value of the whole number of shares of stock of the corporation outstanding on such date. For the purposes of this subsection shares of stock of a corporation shall be considered to be owned by the person in whom the equitable right to the income from such shares is in good faith vested; and as used in this subsection the term 'China' shall have the same meaning as when used in the China Trade Act, 1922."

(d) RETURNS.—Section 1203 (a) (2) of the Internal Revenue Code (relating to extensions of time for filing capital-stock tax returns) is amended by inserting at the end thereof the following: "With respect to the year ending June 30, 1941, the extension may be for not more than 90 days.".

(e) PRIOR RETURNS EFFECTIVE.—If a return is filed in accordance with section 1203 of the Internal Revenue Code with respect to the year ending June 30, 1941, on the basis of a three-year declaration of value, the value declared on such return shall constitute the declared value for the purposes of section 1202 of the Internal Revenue Code, as

amended by this section, for such year ending June 30, 1941, unless a different value is declared on another return filed within the time prescribed by law for filing such return.

~~(58) (c)~~ *(f)* EFFECTIVE DATE.—~~(59) Subsections (a) and (b)~~ *This section* shall be effective only with respect to the year ending June 30, 1941, and succeeding years.

~~(60) SEC. 302. DECLARED VALUE EXCESS-PROFITS TAX—DEFENSE TAX MADE PERMANENT.~~

~~Section 600 (b) of the Internal Revenue Code is amended to read as follows:~~

~~"(b) DEFENSE TAX.—In the case of any taxpayer, the amount of tax payable under this section for any income-tax taxable year ending after June 30, 1940, shall be 10 per centum greater than the amount of tax which would be payable if computed without regard to this subsection."~~

SEC. 302. DECLARED VALUE EXCESS PROFITS TAX—DEFENSE TAX RATES INCORPORATED IN RATE SCHEDULE.

(a) RATES.—Section 600 of the Internal Revenue Code (relating to rate of declared value excess profits tax) is amended as follows:

(1) By striking out the heading "(a) GENERAL RULE.—";

(2) By amending the rate schedule to read as follows:

"6⁶⁄₁₀ per centum of such portion of its net income for such income-tax taxable year as is in excess of 10

per centum and not in excess of 15 per centum of the declared value;

"13⅔ per centum of such portion of its net income for such income-tax taxable year as is in excess of 15 per centum of the declared value."; and

(3) By repealing subsection (b) (relating to defense tax for five years).

(b) TECHNICAL AMENDMENT.—Section 601 (including the heading) of the Internal Revenue Code is amended by striking out the word "adjusted" wherever occurring therein.

(c) EFFECTIVE DATE.—This section shall be effective only with respect to income-tax taxable years ending after June 30, 1941, and succeeding years.

TITLE IV—ESTATE AND GIFT TAXES

SEC. 401. ESTATE TAX RATES.

(a) RATES.—Section 935 (b) of the Internal Revenue Code is amended to read as follows:

"(b) The tentative tax referred to in subsection (a) (1) of this section shall be the tentative tax shown in the following table:

(61) "If the net estate is:	The tentative tax shall be:
Not over $5,000	3% of the net estate.
Over $5,000 but not over $10,000	$150, plus 7% of excess over $5,000.
Over $10,000 but not over $20,000	$500, plus 10% of excess over $10,000.
Over $20,000 but not over $30,000	$1,500, plus 13% of excess over $20,000.
Over $30,000 but not over $10,000	$2,800, plus 16% of excess over $30,000.

~~"If the net estate is:~~	~~The tentative tax shall be:~~
~~Over $10,000 but not over $50,000~~	~~$1,400, plus 20% of excess over $10,000.~~
~~Over $50,000 but not over $60,000~~	~~$6,400, plus 23% of excess over $50,000.~~
~~Over $60,000 but not over $100,000.~~	~~$8,700, plus 25% of excess over $60,000.~~
~~Over $100,000 but not over $250,000.~~	~~$18,700, plus 27% of excess over $100,000.~~
~~Over $250,000 but not over $500,000.~~	~~$59,200, plus 29% of excess over $250,000.~~
~~Over $500,000 but not over $750,000.~~	~~$131,700, plus 32% of excess over $500,000.~~
~~Over $750,000 but not over $1,000,000.~~	~~$211,700, plus 34% of excess over $750,000.~~
~~Over $1,000,000 but not over $1,250,000.~~	~~$296,700, plus 36% of excess over $1,000,000.~~
~~Over $1,250,000 but not over $1,500,000.~~	~~$386,700, plus 38% of excess over $1,250,000.~~
~~Over $1,500,000 but not over $2,000,000.~~	~~$481,700, plus 41% of excess over $1,500,000.~~
~~Over $2,000,000 but not over $2,500,000.~~	~~$686,700, plus 45% of excess over $2,000,000.~~
~~Over $2,500,000 but not over $3,000,000.~~	~~$911,700, plus 48% of excess over $2,500,000.~~
~~Over $3,000,000 but not over $3,500,000.~~	~~$1,151,700, plus 51% of excess over $3,000,000.~~
~~Over $3,500,000 but not over $4,000,000.~~	~~$1,406,700, plus 54% of excess over $3,500,000.~~
~~Over $4,000,000 but not over $5,000,000.~~	~~$1,676,700, plus 58% of excess over $4,000,000.~~
~~Over $5,000,000 but not over $6,000,000.~~	~~$2,256,700, plus 61% of excess over $5,000,000.~~
~~Over $6,000,000 but not over $7,000,000.~~	~~$2,866,700, plus 64% of excess over $6,000,000.~~
~~Over $7,000,000 but not over $8,000,000.~~	~~$3,506,700, plus 66% of excess over $7,000,000.~~
~~Over $8,000,000 but not over $10,000,000.~~	~~$4,166,700, plus 69% of excess over $8,000,000.~~
~~Over $10,000,000~~	~~$5,546,700, plus 70% of excess over $10,000,000.~~

"If the net estate is:	*The tentative tax shall be:*
Not over $5,000	*3% of the net estate.*
Over $5,000 but not over $10,000	*$150, plus 7% of excess over $5,000.*
Over $10,000 but not over $20,000	*$500, plus 11% of excess over $10,000.*
Over $20,000 but not over $30,000	*$1,600, plus 14% of excess over $20,000.*
Over $30,000 but not over $40,000	*$3,000, plus 18% of excess over $30,000.*
Over $40,000 but not over $50,000	*$4,800, plus 22% of excess over $40,000.*
Over $50,000 but not over $60,000	*$7,000, plus 25% of excess over $50,000.*
Over $60,000 but not over $100,000.	*$9,500, plus 28% of excess over $60,000.*

"If the net estate is:	*The tentative tax shall be:*
Over $100,000 but not over $250,000.	*$20,700, plus 30% of excess over $100,000.*
Over $250,000 but not over $500,000.	*$65,700, plus 32% of excess over $250,000.*
Over $500,000 but not over $750,000.	*$145,700, plus 35% of excess over $500,000.*
Over $750,000 but not over $1,000,000.	*$233,200, plus 37% of excess over $750,000.*
Over $1,000,000 but not over $1,250,000.	*$325,700, plus 39% of excess over $1,000,000.*
Over $1,250,000 but not over $1,500,000.	*$423,200, plus 42% of excess over $1,250,000.*
Over $1,500,000 but not over $2,000,000.	*$528,200, plus 45% of excess over $1,500,000.*
Over $2,000,000 but not over $2,500,000.	*$753,200, plus 49% of excess over $2,000,000.*
Over $2,500,000 but not over $3,000,000.	*$998,200, plus 53% of excess over $2,500,000.*
Over $3,000,000 but not over $3,500,000.	*$1,263,200, plus 56% of excess over $3,000,000.*
Over $3,500,000 but not over $4,000,000.	*$1,543,200, plus 59% of excess over $3,500,000.*
Over $4,000,000 but not over $5,000,000.	*$1,838,200, plus 63% of excess over $4,000,000.*
Over $5,000,000 but not over $6,000,000.	*$2,468,200, plus 67% of excess over $5,000,000.*
Over $6,000,000 but not over $7,000,000.	*$3,138,200, plus 70% of excess over $6,000,000.*
Over $7,000,000 but not over $8,000,000.	*$3,838,200, plus 73% of excess over $7,000,000.*
Over $8,000,000 but not over $10,000,000.	*$4,568,200, plus 76% of excess over $8,000,000.*
Over $10,000,000	*$6,088,200, plus 77% of excess over $10,000,000."*

(62)~~(b) EFFECTIVE DATE OF AMENDMENT.—The amendment made by subsection (a) shall be applicable only to estates of decedents dying after the date of the enactment of this Act.~~

~~(c) DEFENSE TAX MADE PERMANENT.—Subchapter C of Chapter 3 of the Internal Revenue Code is amended by striking out "and before the expiration of five years after such date"; by striking out in the heading of the subchapter "FOR FIVE YEARS"; and by striking out in the heading of section 951 "FOR FIVE YEARS".~~

(b) DEFENSE TAX REPEALED.—Subchapter C of Chapter 3 of the Internal Revenue Code is repealed.

(c) EFFECTIVE DATE.—Subsections (a) and (b) shall be effective only with respect to estates of decedents dying after the date of the enactment of this Act.

(63) **SEC. 402. DEDUCTION ON ACCOUNT OF PROPERTY PREVIOUSLY TAXED.**

(a) AMENDMENTS TO INTERNAL REVENUE CODE.—The Internal Revenue Code is amended as follows:

(1) Second sentence of section 812 (c) Internal Revenue Code, following "estate tax imposed under this", strike out "subchapter, the Revenue Act of 1926 (44 Stat. 69)" and insert in lieu thereof "chapter".

(2) Second sentence of section 861 (a) (2) Internal Revenue Code, following "estate tax imposed under this", strike out "subchapter, the Revenue Act of 1926 (44 Stat. 69)" and insert in lieu thereof "chapter".

(b) AMENDMENTS TO REVENUE ACT OF 1926.—The Revenue Act of 1926 is amended as follows:

(1) Second sentence of section 303 (a) (2) Revenue Act of 1926, as amended, following "estate tax imposed under", strike out "this" and insert in lieu thereof "the Revenue Act of 1932".

(2) Second sentence of section 303 (b) (2) Reve-

nue Act of 1926, as amended, following "estate tax imposed under", strike out "this" and insert in lieu thereof "the Revenue Act of 1932".

(c) EFFECTIVE DATES.—

(1) The sections of the Internal Revenue Code amended by subsection (a) shall have effect as if such sections, as so amended, had been enacted in the Internal Revenue Code on February 10, 1939.

(2) The amendments made by subsection (b) shall be effective with respect to the estates of decedents dying after the enactment of the Revenue Act of 1932.

(64) ***SEC. 403. AMENDMENT TO SECTION 812, INTERNAL REVENUE CODE.***

(a) Subsection (d) of section 812 of the Internal Revenue Code, relating to the deduction for charitable, etc., bequests, is amended by adding the following new sentence: "The amount deductible under this subsection shall include any amount falling into a devise or bequest to or for any of the designated objects and uses, as the result of a renunciation or disclaimer of a devise, bequest, or legacy by another beneficiary under the will or a codicil thereto."

(b) The amendment made by subsection (a) of this section shall be applicable, irrespective of whether the decedent died before or after the date of enactment of this Act.

SEC. (65)402 *404.* **GIFT TAX RATES.**

(a) RATES.—The Rate Schedule of section 1001 of the Internal Revenue Code is amended to read as follows:

(66)"If the net gifts are:	The tax shall be:
Not over $5,000	2¼% of the net gifts.
Over $5,000 but not over $10,000	$112.50, plus 5¼% of excess over $5,000.
Over $10,000 but not over $20,000	$375, plus 7½% of excess over $10,000.
Over $20,000 but not over $30,000	$1,125, plus 9¾% of excess over $20,000.
Over $30,000 but not over $40,000	$2,100, plus 12% of excess over $30,000.
Over $40,000 but not over $50,000	$3,300, plus 15% of excess over $40,000.
Over $50,000 but not over $60,000	$4,800, plus 17¼% of excess over $50,000.
Over $60,000 but not over $100,000	$6,525, plus 18¾% of excess over $60,000.
Over $100,000 but not over $250,000.	$14,025, plus 20¼% of excess over $100,000.
Over $250,000 but not over $500,000.	$44,400, plus 21¾% of excess over $250,000.
Over $500,000 but not over $750,000.	$98,775, plus 24% of excess over $500,000.
Over $750,000 but not over $1,000,000.	$158,775, plus 25½% of excess over $750,000.
Over $1,000,000 but not over $1,250,000.	$222,525, plus 27% of excess over $1,000,000.
Over $1,250,000 but not over $1,500,000.	$290,025, plus 28½% of excess over $1,250,000.
Over $1,500,000 but not over $2,000,000.	$361,275, plus 30¾% of excess over $1,500,000.
Over $2,000,000 but not over $2,500,000.	$515,025, plus 33¾% of excess over $2,000,000.
Over $2,500,000 but not over $3,000,000.	$683,775, plus 36% of excess over $2,500,000.
Over $3,000,000 but not over $3,500,000.	$863,775, plus 38¼% of excess over $3,000,000.
Over $3,500,000 but not over $4,000,000.	$1,055,025, plus 40½% of excess over $3,500,000.
Over $4,000,000 but not over $5,000,000.	$1,257,525, plus 43½% of excess over $4,000,000.
Over $5,000,000 but not over $6,000,000.	$1,692,525, plus 45¾% of excess over $5,000,000.
Over $6,000,000 but not over $7,000,000.	$2,150,025, plus 48% of excess over $6,000,000.
Over $7,000,000 but not over $8,000,000.	$2,630,025, plus 49½% of excess over $7,000,000.
Over $8,000,000 but not over $10,000,000.	$3,125,025, plus 51¾% of excess over $8,000,000.
Over $10,000,000	$4,160,025, plus 52½% of excess over $10,000,000.""

"If the net gifts are:	*The tax shall be:*
Not over $5,000	*2¼% of the net gifts.*
Over $5,000 but not over $10,000	*$112.50, plus 5¼% of excess over $5,000.*
Over $10,000 but not over $20,000	*$375, plus 8¼% of excess over $10,000.*
Over $20,000 but not over $30,000	*$1,200, plus 10½% of excess over $20,000.*
Over $30,000 but not over $40,000	*$2,250, plus 13½% of excess over $30,000.*
Over $40,000 but not over $50,000	*$3,600, plus 16½% of excess over $40,000.*
Over $50,000 but not over $60,000	*$5,250, plus 18¾% of excess over $50,000.*
Over $60,000 but not over $100,000	*$7,125, plus 21% of excess over $60,000.*
Over $100,000 but not over $250,000.	*$15,525, plus 22½% of excess over $100,000.*
Over $250,000 but not over $500,000.	*$49,275, plus 24% of excess over $250,000.*
Over $500,000 but not over $750,000.	*$109,275, plus 26¼% of excess over $500,000.*
Over $750,000 but not over $1,000,000.	*$174,900, plus 27¾% of excess over $750,000.*
Over $1,000,000 but not over $1,250,000.	*$244,275, plus 29¼% of excess over $1,000,000.*
Over $1,250,000 but not over $1,500,000.	*$317,400, plus 31½% of excess over $1,250,000.*
Over $1,500,000 but not over $2,000,000.	*$396,150, plus 33¾% of excess over $1,500,000.*
Over $2,000,000 but not over $2,500,000.	*$564,900, plus 36¾% of excess over $2,000,000.*
Over $2,500,000 but not over $3,000,000.	*$748,650, plus 39¾% of excess over $2,500,000.*
Over $3,000,000 but not over $3,500,000.	*$947,400, plus 42% of excess over $3,000,000.*
Over $3,500,000 but not over $4,000,000.	*$1,157,400, plus 44¼% of excess over $3,500,000.*
Over $4,000,000 but not over $5,000,000.	*$1,378,650, plus 47¼% of excess over $4,000,000.*
Over $5,000,000 but not over $6,000,000.	*$1,851,150, plus 50¼% of excess over $5,000,000.*
Over $6,000,000 but not over $7,000,000.	*$2,353,650, plus 52½% of excess over $6,000,000.*
Over $7,000,000 but not over $8,000,000.	*$2,878,650, plus 54¾% of excess over $7,000,000.*
Over $8,000,000 but not over $10,000,000.	*$3,426,150, plus 57% of excess over $8,000,000.*
Over $10,000,000	*$4,566,150, plus 57¾% of excess over $10,000,000."*

(b) YEARS TO WHICH (67) ~~AMENDMENT~~ *AMENDMENTS* APPLICABLE.—The (68) ~~amendment made by subsection (a)~~ *amendments made by this section* shall be applied in com-

puting the tax for the calendar year 1942 and each calendar year thereafter (but not the tax for the calendar year 1941 or a previous calendar year), and such (69) ~~amendment~~ *amendments* shall be applied in all computations in respect of the calendar year 1941 and previous calendar years for the purpose of computing the tax for the calendar year 1942 and any calendar year thereafter.

(70) ~~(c) DEFENSE TAX RATES MADE PERMANENT.—Section 1001 (d) of the Internal Revenue Code is amended by striking out "1941 to 1945, both inclusive," and inserting in lieu thereof "after 1940"; and by striking out in the heading "for 1940–1945".~~

(c) DEFENSE TAX REPEALED.—Section 1001 (d) of the Internal Revenue Code (relating to defense tax for five years on gifts) is repealed.

TITLE V—EXCISE TAXES

Part I—1932 Excise Taxes Made Permanent

SEC. 501. 1932 EXCISE TAXES MADE PERMANENT.

Section 3452 of the Internal Revenue Code (relating to expiration of 1932 excise taxes) is repealed.

SEC. 502. PIPE LINE TAX.

Section 3460 (a) of the Internal Revenue Code (relating to termination of tax on transportation by pipe line) is amended by striking out "originating before July 1, 1945".

SEC. 503. TECHNICAL AMENDMENT.

The heading of Subtitle C of the Internal Revenue Code is amended to read as follows:

"SUBTITLE C—MANUFACTURERS' EXCISE AND IMPORT TAXES AND TEMPORARY TAXES"

SEC. 504. BOND TAX.

Section 3481 (b) (relating to expiration of tax on transfer of bonds) is repealed.

SEC. 505. CONVEYANCE TAX.

Section 3482 (relating to tax on conveyances) is amended by striking out "delivered before July 1, 1945".

Part II—Defense Tax Rates Made Permanent (No Increase in Tax and No Change in Basis of Tax)

SEC. 521. DEFENSE EXCISE TAX RATES MADE PERMANENT WHICH ARE NOT INCREASED BY THIS ACT.

(a) The following sections of the Internal Revenue Code are amended as follows:

(1) BOX SEATS.—Section 1700 (b) (1) is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

(2) SALES OUTSIDE BOX OFFICE.—Section 1700 (c) (1) is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

(3) CORPORATE SECURITIES.—Section 1801 is amended by striking out "10 cents until July 1, 1945, and 5 cents thereafter" and inserting in lieu thereof "11 cents".

(4) CAPITAL STOCK ISSUES.—Section 1802 (a) is amended by striking out "10 cents until July 1, 1945, and 5 cents thereafter" and the comma wherever following such expression and inserting in lieu thereof "11 cents"; and by striking out "2 cents until July 1, 1945, and 1 cent thereafter," and inserting in lieu thereof "3 cents".

(5) CAPITAL STOCK TRANSFERS.—Section 1802 (b) is amended by striking out "4 cents until July 1, 1945, and 2 cents thereafter," and inserting in lieu thereof "5 cents"; and by striking out "5 cents instead of 4 cents until July 1, 1945" and inserting in lieu thereof "6 cents".

(6) INSURANCE POLICIES.—Section 1804 is amended by striking out "3 cents" and inserting in lieu thereof "4 cents".

(7) PASSAGE TICKETS.—Section 1806 is amended by striking out "$1" and inserting in lieu thereof "$1.10"; by striking out "$3" and inserting in lieu thereof "$3.30"; and by striking out "$5" and inserting in lieu thereof "$5.50".

(8) CIGARETTES.—Section 2000 (c) (2) is amended by striking out "$3" and inserting in lieu thereof "$3.25" and by striking out "$7.20" and inserting in lieu thereof "$7.80".

(9) PISTOLS AND REVOLVERS.—Section 2700 (a) is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

(10) FERMENTED MALT LIQUORS.—Section 3150 (a) is amended by striking out "$5" and inserting in lieu thereof "$6".

(11) WHOLESALERS OF LIQUOR.—Section 3250 (a) (1) is amended by striking out "$100" and inserting in lieu thereof "$110".

(12) RETAILERS OF LIQUOR.—Section 3250 (b) is amended by striking out "$25" and inserting in lieu thereof "$27.50".

(13) BREWERS.—Section 3250 (c) is amended by striking out "$100" and inserting in lieu thereof "$110" and by striking out "$50" and inserting in lieu thereof "$55".

(14) WHOLESALERS OF MALT LIQUORS.—Section 3250 (d) is amended by striking out "$50" and inserting in lieu thereof "$55".

(15) RETAILERS OF MALT LIQUORS.—Section 3250 (e) (1) is amended by striking out "$20" and

inserting in lieu thereof "$22", and section 3250 (e) (3) is amended by striking out "$2" and inserting in lieu thereof "$2.20".

(16) RECTIFIERS.—Section 3250 (f) (1) is amended by striking out "$200" and inserting in lieu thereof "$220"; and by striking out "$100" and inserting in lieu thereof "$110".

(17) STILLS.—Section 3250 (j) is amended by striking out "$50" and inserting in lieu thereof "$55"; and by striking out "$20" and inserting in lieu thereof "$22".

(18) FIREARMS, ETC.—Section 3407 is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

(19) ELECTRICAL ENERGY.—Section 3411 is amended by striking out "3 per centum" and inserting in lieu thereof "3½ per centum".

(20) GASOLINE.—Section 3412 (a) is amended by striking out "1 cent" and inserting in lieu thereof "1½ cents".

(21) LUBRICATING OILS.—Section 3413 is amended by striking out "4 cents" and inserting in lieu thereof "4½ cents".

(22) TRANSPORTATION OF OIL BY PIPE LINE.—Section 3460 (a) is amended by striking out "4 per

centum" and inserting in lieu thereof "4½ per centum".

(23) TRANSFER OF BONDS.—Section 3481 (a) is amended by striking out "4 cents" and inserting in lieu thereof "5 cents".

(24) CONVEYANCES.—Section 3482 is amended by striking out "50 cents" and inserting in lieu thereof "55 cents".

(b) The rates specified in subsection (a) shall be applicable only with respect to the period after the date of the enactment of this Act, and the rates specified in section 1650 (a), section 2004, and section 3190 of the Internal Revenue Code shall not apply with respect to such period.

Part III—Increases in Rates of Existing Excise Taxes

SEC. 531. PLAYING CARDS.

Section 1807 (a) of the Internal Revenue Code is amended by striking out "10 cents" and inserting in lieu thereof "13 cents".

SEC. 532. SAFE DEPOSIT BOXES.

Section 1850 (a) of the Internal Revenue Code is amended by striking out "10 per centum" and inserting in lieu thereof "20 per centum".

SEC. 533. DISTILLED SPIRITS.

(a) RATE ON DISTILLED SPIRITS (71) ~~AND BRANDY~~.—Section 2800 (a) (1) of the Internal Revenue Code is amended by striking out "at the rate of $2.25 (and on

brandy at the rate of $2)" and by inserting in lieu thereof "at the rate of $4 (72) ~~(and on brandy at the rate of $3.75)~~" (73), *and by striking out "(except brandy)"*.

(b) RATE ON IMPORTED PERFUMES CONTAINING ALCOHOL.—Section 2800 (a) (3) of the Internal Revenue Code is amended by striking out "$2.25" and inserting in lieu thereof "$4".

(c) DRAWBACK ON DISTILLED SPIRITS.—The third paragraph of section 2887 of the Internal Revenue Code is amended by striking out "but shall not exceed a rate of $3 (or, in the case of brandy, $2.75)" and inserting in lieu thereof "but shall not exceed a rate of $4 (74) ~~(or, in the case of brandy, $3.75)~~".

(d) FLOOR STOCKS TAX.—Section 2800 of the Internal Revenue Code is amended by inserting at the end thereof the following new subsection:

"(i) FLOOR STOCKS TAX.—

"(1) Upon all distilled spirits upon which the internal-revenue tax imposed by law has been paid, and which on (75) ~~the effective date of Part III of Title V of the Revenue Act of 1941~~ *October 1, 1941*, are held and intended for sale or for use in the manufacture or production of any article intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax of $1

(76)*(except that in the case of brandy, the rate shall be $1.25)* on each proof-gallon, and a proportionate tax at a like rate on all fractional parts of such proof-gallon.

"(2) Every person required by this subsection to pay any floor stocks tax shall, on or (77)~~before the first day of the third month beginning after such effective date~~ *January 1, 1942*, under such regulations as the Commissioner, with the approval of the Secretary, shall prescribe, make a return and pay such tax. Payment of the tax shown to be due may be extended to a date not later than (78)~~the first day of the tenth month beginning after such effective date~~ *August 1, 1942*, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Commissioner, with the approval of the Secretary, may prescribe.

"(3) All provisions of law, including penalties, applicable in respect of internal-revenue taxes on distilled spirits shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the floor stocks tax imposed hereunder. For the purposes of this subsection the term 'distilled spirits' shall include products produced in such manner that the person producing them is a rectifier within the meaning of section 3254 (g)."

SEC. 534. WINES.

(a) RATE ON STILL WINES.—Section 3030 (a) (1) (A) of the Internal Revenue Code is amended by striking out "5 cents" and inserting in lieu thereof "(79) ~~8 cents~~ *10 cents*"; by striking out "15 cents" and inserting in lieu thereof "(80) ~~24 cents~~ *35 cents*"; and by striking out "25 cents" and inserting in lieu thereof "(81) ~~50 cents~~ *65 cents*".

(b) RATE ON SPARKLING WINES, LIQUEURS, CORDIALS, ETC.—Section 3030 (a) (2) of the Internal Revenue Code is amended by striking out "2½ cents" and inserting in lieu thereof "(82) ~~4 cents~~ *7 cents*"; and by striking out "1¼ cents" and inserting in lieu thereof "(83) ~~2¼ cents~~ *3½ cents*".

(c) Subchapter F of Chapter 26 of the Internal Revenue Code is amended by inserting at the end thereof the following new section:

"SEC. 3192. FLOOR STOCKS TAX ON WINES.

"(a) FLOOR STOCKS TAX.—Upon all wines upon which the internal-revenue tax imposed by law has been paid, and which on (84) ~~the effective date of Part III of Title V of the Revenue Act of 1941~~ *October 1, 1941* are held and intended for sale or for use in the manufacture or production of an article intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax at rates equal to the increases in rates of tax (over the defense tax rates) made

applicable to such articles by section 534 of the Revenue Act of 1941.

"(b) RETURNS.—Every person required by subsection (a) to pay any floor stocks tax shall, on or before (85) ~~the first day of the third month beginning after such effective date~~ *January 1, 1942*, under such regulations as the Commissioner, with the approval of the Secretary, shall prescribe, make a return and pay such tax. Payment of the tax shown to be due may be extended to a date not later than the (86) ~~first day of the tenth month beginning after such effective date~~ *August 1, 1942*, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Commissioner, with the approval of the Secretary, may prescribe.

"(c) LAWS APPLICABLE.—All provisions of law, including penalties, applicable in respect of the taxes imposed by section 3030 (a) shall, insofar as applicable and not inconsistent with this subsection, be applicable with respect to the floor stocks tax imposed by subsection (a)."

SEC. 535. TIRES AND TUBES.

(a) RATE ON TIRES.—Section 3400 (1) of the Internal Revenue Code is amended by striking out "2¼ cents" and inserting in lieu thereof "5 cents".

(b) RATE ON TUBES.—Section 3400 (2) of the In

ternal Revenue Code is amended by striking out "4 cents" and inserting in lieu thereof "9 cents".

(c) FLOOR STOCKS TAX ON TIRES AND INNER TUBES.—Section 3400 of the Internal Revenue Code is amended by inserting "(a) TAX.—" before the beginning thereof and by inserting at the end thereof the following:

"(b) FLOOR STOCKS TAX.—Upon tires and inner tubes subject to tax under subsection (a) of the type used on vehicles subject to tax under section 3403 (a) or (b) which on (87) ~~the effective date of Part III of Title V of the Revenue Act of 1941~~ *October 1, 1941* are held for sale by any person there shall be levied, assessed, collected, and paid a floor stocks tax at the rate of $2\frac{1}{2}$ cents per pound in the case of tires and $4\frac{1}{2}$ cents per pound in the case of inner tubes. The tax shall apply to tires and inner tubes held for sale on, or in connection with, or held for use in the manufacture or production of, articles the sale of which will be subject to tax under section 3403 (a) or (b). The tax shall not apply to tires and inner tubes held for sale by the manufacturer, producer, or importer thereof, and to tires and inner tubes the sale of which will be subject under the provisions of sections 3444 (a) (2) and 3445 to the manufacturers' tax on tires and inner tubes."

SEC. 536. EFFECTIVE DATE OF PART III.

The amendments made by this Part shall be applicable only with respect to the period beginning with (88) ~~the effec-~~

~~tive date of this Part~~ *October 1, 1941*, and the rates specified in section 1650 (a), section 1807 (b), section 2004, section 2800 (g), and section 3190 of the Internal Revenue Code shall not apply with respect to such period. This Part shall take effect on (89)~~the first day of the first month which begins more than 10 days after the date of the enactment of this Act~~ *October 1, 1941*.

Part IV—Changes in Basis of Computing Tax (Rates Increased in Certain Cases)

SEC. 541. ADMISSIONS TAX.

(a) REDUCTION OF EXEMPTION.—Section 1700 (a) (1) of the Internal Revenue Code is amended to read as follows:

"(1) RATE.—(90)~~A tax of 1 cent for each 10 cents or fraction thereof of the amount paid for admission to any place, including admission by season ticket or subscription; except that in case the amount paid for admission is less than 10 cents, no tax shall be imposed.~~ *A tax of 1 cent for each 10 cents or fraction thereof of the amount paid for admission to any place, including admission by season ticket or subscription.* In the case of persons (except bona fide employees, municipal officers on official business, (91)~~children under twelve~~ *persons under eighteen* years of age, members of the military or naval forces of the United States when in uniform, and members

of the Civilian Conservation Corps when in uniform) admitted free or at reduced rates to any place at any time when and under circumstances under which an admission charge is made to other persons, an equivalent tax shall be collected based on the price so charged to such other persons for the same or similar accommodations, to be paid by the person so admitted. ~~(92) Amounts paid for admission by season ticket or subscription shall be exempt only if the amount which would be charged to the holder or subscriber for a single admission is less than 10 cents.~~ *No tax shall be imposed on the amount paid for the admission of a child under 12 years of age if the amount paid is less than 10 cents.*"

~~(93) (b) TERMINATION OF EXEMPTIONS.—Section 1701 of the Internal Revenue Code (relating to exemptions from admissions tax) shall not apply with respect to amounts paid, on or after the effective date of this Part, for admission.~~

~~(94)~~ *(b) EXEMPTION OF SCHOOL ENTERTAINMENTS.—Section 1701 of the Internal Revenue Code (relating to exemptions from admissions tax) is amended by inserting at the end thereof the following new subsection:*

"*(d) SCHOOL ENTERTAINMENTS.—Any admissions to entertainments conducted by public or parochial, elementary or high schools.*"

(c) EXEMPTION OF NATIONAL PARK, ETC., AD-

MISSIONS TERMINATED.—The Interior Department Appropriation Act, 1942, is amended by striking out that part thereof under the heading "NATIONAL PARK SERVICE" which reads as follows:

"Hereafter fees incident to admission to the national parks and monuments and other areas in the national park system, charged and collected with the approval of the Secretary of the Interior, shall be exempt from all Federal tax on admissions."

The Act entitled "An Act making appropriations for the Department of the Interior for the fiscal year ending June 30, 1936, and for other purposes", approved May 9, 1935, is amended by striking out that part thereof under the heading "NATIONAL PARK SERVICE" which reads as follows: ": *Provided*, That any admission fee charged for entrance to Carlsbad Caverns and any fee charged for guide service therein, shall be exempt from all taxes on admissions".

SEC. 542. CABARET, ROOF GARDEN, ETC., TAX.

(a) IMPOSITION.—Section 1700 (e) of the Internal Revenue Code is amended to read as follows:

"(e) TAX ON CABARETS, ROOF GARDENS, ETC.—

"(1) RATE.—A tax equivalent to 5 per centum of all amounts paid for admission, refreshment, service, and merchandise, at any roof garden, cabaret, or other similar place furnishing a public performance for profit, if

any payment, or part thereof, for admission, refreshment, service, or merchandise, entitles the patron to be present during any portion of such performance. No tax shall be applicable under subsection (a) (1) on account of an amount paid with respect to which tax is imposed under this subsection.

"(2) BY WHOM PAID.—The tax imposed under paragraph (1) shall be returned and paid by the person receiving such payments."

(b) PLACE OF PAYMENT.—Section 1715 (b) of the Internal Revenue Code is amended to read as follows:

"(b) PLACE OF PAYMENT.—The taxes collected under subsection (a), and the taxes required to be paid under section 1700 (c), (d), or (e), shall be paid to the collector of the district in which the principal office or place of business is located."

(c) RETURNS.—Section 1716 (a) of the Internal Revenue Code is amended to read as follows:

"(a) REQUIREMENT.—Every person required under subsection (a) of section 1715 to collect the taxes, or required under section 1700 (c), (d), or (e) to pay the taxes, imposed by this chapter shall make returns under oath, in duplicate, in such manner and containing such information as the Commissioner, with the approval of the Secretary, may, by regulation, prescribe."

(d) Section 1700 (c) (3) and section 1700 (d) (3) of the Internal Revenue Code are repealed as of the effective date of this Part.

SEC. 543. CLUB DUES.

(a) REDUCTION OF EXEMPTION AND DEFENSE TAX RATE MADE PERMANENT.—Section 1710 (a) (1) and (2) of the Internal Revenue Code are amended to read as follows:

"(1) DUES OR MEMBERSHIP FEES.—A tax equivalent to 11 per centum of any amount paid as dues or membership fees to any social, athletic, or sporting club or organization, if the dues or fees of an active resident annual member are in excess of $10 per year.

"(2) INITIATION FEES.—A tax equivalent to 11 per centum of any amount paid as initiation fees to such a club or organization, if such fees amount to more than $10, or if the dues or membership fees, not including initiation fees, of an active resident annual member are in excess of $10 per year."

(b) DEFINITION OF DUES.—Section 1712 (a) of the Internal Revenue Code is amended to read as follows:

"(a) DUES.—The term 'dues' includes any assessment, irrespective of the purpose for which made, and any charges for social privileges or facilities, or for golf, tennis, polo,

swimming, or other athletic or sporting privileges or facilities, for any period of more than six days; and".

SEC. 544. AUTOMOBILE, TRUCK, BUS, AND PARTS TAX.

(a) INCREASE OF RATE AND CLASSIFICATION OF BUSSES.—Section 3403 (a) and (b) of the Internal Revenue Code are amended to read as follows:

"(a) Automobile truck chassis, automobile truck bodies, automobile bus chassis, automobile bus bodies, truck and bus trailer and semitrailer chassis, truck and bus trailer and semitrailer bodies, tractors of the kind chiefly used for highway transportation in combination with a trailer or semitrailer (including in each of the above cases parts or accessories therefor sold on or in connection therewith or with the sale thereof), 5 per centum. A sale of an automobile truck, bus, or truck or bus trailer or semitrailer, shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body.

"(b) Other automobile chassis and bodies, chassis and bodies for trailers or semitrailers suitable for use in connection with passenger automobiles, and motorcycles (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof), except tractors, 7 per centum. A sale of an automobile, trailer, or semitrailer shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body."

(b) INCREASE IN RATE ON PARTS AND EXCLUSION OF RADIOS FROM AUTOMOBILE TAX.—The first sentence of section 3403 (c) of the Internal Revenue Code is amended to read as follows: "Parts or accessories (other than tires and inner tubes and other than radios) for any of the articles enumerated in subsection (a) or (b), 5 per centum."

(c) CREDITS ON ACCOUNT OF TIRE AND TUBE TAX.—Section 3403 (e) of the Internal Revenue Code is amended to read as follows:

"(e) If tires or inner tubes on which tax has been imposed under this chapter are sold on or in connection with, or with the sale of, a chassis, body, or motor cycle, there shall (under regulations prescribed by the Commissioner, with the approval of the Secretary) be credited against the tax under this section an amount equal to, in the case of an article taxable under subsection (a), 5 per centum, and in the case of an article taxable under subsection (b), 7 per centum—

"(1) of the purchase price (less, in the case of tires, the part of such price attributable to the metal rim or rim base) if such tires or inner tubes were taxable under section 3400 (relating to tax on tires and inner tubes); or

"(2) if such tires or inner tubes were taxable under section 3444 (relating to use by manufacturer, producer,

or importer) then of the price (less, in the case of tires, the part of such price attributable to the metal rim or rim base) at which such or similar tires or inner tubes are sold, in the ordinary course of trade, by manufacturers, producers, or importers thereof, as determined by the Commissioner. In lieu of the rates of credit of 5 per centum and 7 per centum above provided, the rates, respectively, for the following periods, shall be as follows:

"(A) With respect to the period after June 30, 1940, and before the effective date of the increase in tax on automobiles made by the Revenue Act of 1941, $2\frac{1}{2}$ per centum and $3\frac{1}{2}$ per centum; and

"(B) With respect to the period before July 1, 1940, 2 per centum and 3 per centum."

(d) CREDITS ON TERMINATION OF TAX.—Section 3403 (f) of the Internal Revenue Code (relating to credits and refunds on termination of automobile tax) is repealed.

SEC. 545. RADIOS, PHONOGRAPHS, RECORDS, AND MUSICAL INSTRUMENTS.

Section 3404 of the Internal Revenue Code is amended to read as follows:

"SEC. 3404. TAX ON RADIO RECEIVING SETS, PHONOGRAPHS, PHONOGRAPH RECORDS, AND MUSICAL INSTRUMENTS.

"There shall be imposed upon the following articles (including in each case, except in the case of musical instru-

ments, parts or accessories therefor sold on or in connection with the sale thereof) sold by the manufacturer, producer, or importer a tax equivalent to 10 per centum of the price for which sold:

"(a) Radio receiving sets, automobile radio receiving sets, combination radio and phonograph sets, and phonographs.

"(b) Chassis, cabinets, tubes, reproducing units, power packs, antennae of the 'built-in' type, and phonograph mechanisms, which are suitable for use on or in connection with, or as component parts of, any of the articles enumerated in subsection (a), whether or not primarily adapted for such use.

"(c) Phonograph records.

"(d) Musical instruments."

SEC. 546. MECHANICAL REFRIGERATORS.

Section 3405 of the Internal Revenue Code is amended to read as follows:

"SEC. 3405. TAX ON REFRIGERATORS, REFRIGERATING APPARATUS, AND AIR-CONDITIONERS.

"There shall be imposed on the following articles (including in each case parts or accessories therefor sold on or in connection with the sale thereof) sold by the manufacturer, producer, or importer a tax equivalent to 10 per centum of the price for which so sold:

"(a) REFRIGERATORS, ETC.—Refrigerators, beverage coolers, ice cream cabinets, water coolers, food and beverage display cases, food and beverage storage cabinets, ice making machines, and milk cooler cabinets, each such article having, or being primarily designed for use with, a mechanical refrigerating unit operated by electricity, gas, kerosene, or gasoline.

"(b) REFRIGERATING APPARATUS.—Compressors, condensers, evaporators, expansion units, absorbers, and controls, for, or suitable for use as part of, or with, a refrigerating plant, refrigerating system, refrigerating equipment or unit, or any of the articles enumerated in subsection (a).

"(c) AIR-CONDITIONERS.—Self-contained air-conditioning units.

"(d) COMPONENTS.—Cabinets, compressors, condensers, fans, blowers, heating coils, cooling coils, filters, humidifiers, and controls, for, or suitable for use as part of, or with, any of the articles enumerated in subsection (c)."

SEC. 547. MATCHES.

Section 3409 of the Internal Revenue Code is amended to read as follows:

"SEC. 3409. TAX ON MATCHES.

"(a) MANUFACTURERS' TAX.—There shall be imposed upon matches sold by the manufacturer, producer, or im-

porter, a tax of 2 cents per 1,000 matches, except that in the case of fancy wooden matches and wooden matches having a stained, dyed, or colored stick or stem, packed in boxes or in bulk, the tax shall be 5½ cents per 1,000 matches.

"(b) FLOOR STOCKS TAX.—On matches subject to tax under subsection (a) which, on (95)~~the effective date of Part IV of Title V of the Revenue Act of 1941~~ *October 1, 1941*, are held and intended for sale, or for disposition in connection with the sale of other articles, there shall be levied, assessed, collected, and paid a floor stocks tax at the rate of 2 cents per thousand matches. The tax shall not apply to matches in retail stocks held at the place where intended to be sold or disposed of. The tax shall not apply to matches held for sale by the manufacturer, producer, or importer thereof, nor to fancy wooden matches or wooden matches having a stained, dyed, or colored stick or stem."

SEC. 548. TELEPHONE, TELEGRAPH, ETC.

Sections 3465 and 3466 of the Internal Revenue Code are amended to read as follows:

"SEC. 3465. IMPOSITION AND RATE OF TAX.

"(a) There shall be imposed:

(96)~~"(1) In the case of each telegraph, telephone, cable or radio dispatch, message, or conversation which originates within the United States for which the charge is more than 24 cents, a tax of 5 cents for each 50 cents,~~

~~or fraction thereof, of the charge. Only one payment of such tax shall be required notwithstanding the lines or stations of one or more persons are used for the transmission of such dispatch, message, or conversation; and~~

~~"(2) A tax equivalent to 5 per centum of the amount paid for any of the following services:~~

~~"(A) Leased wire or talking circuit special service; or~~

~~"(B) Wire and equipment services (including teletypewriter service, burglar alarm service, news ticker services, stock quotation and information services, and all other similar services).~~

"(1) (A) In the case of each telephone or radio telephone message or conversation which originates within the United States, for which the charge is more than 24 cents, a tax of five cents for each 50 cents, or fraction thereof, of the charge.

"(B) In the case of each telegraph, cable, or radio dispatch or message which originates within the United States, a tax of 10 per centum of the amount of the charge.

Only one payment of a tax imposed by subparagraph (A) or (B) shall be required notwithstanding the lines or sta-

tions of one or more persons are used in the transmission of such dispatch, message, or conversation.

"(2) (A) A tax equivalent to 10 per centum of the amount paid for leased wire, teletypewriter, or talking circuit special service.

"(B) A tax equivalent to 5 per centum of the amount paid for any wire and equipment service (including stock quotation and information services, and all other similar services, but not including burglar or fire alarm service, or service described in subparagraph (A)).

The tax shall apply under this paragraph whether or not the wires or services are within a local exchange area.

"(3) A tax equivalent to ~~(97)5 per centum~~ *10 per centum* of the amount paid by subscribers for local telephone service and for any other telephone service in respect of which a tax is not payable under paragraph (1) or (2). Amounts paid for the installation of instruments, wires, poles, switchboards, apparatus, and equipment shall not be considered amounts paid for service. Service paid for by inserting coins in coin-operated telephones shall not be subject to the tax imposed by this paragraph.

"(b) This section shall not apply to the amount paid

for so much of the service described in paragraph (2) of subsection (a) as is utilized in the conduct, by a common carrier or telephone or telegraph company or a radio broadcasting station or network, of its business as such.

"SEC. 3466. EXEMPTION FROM TAX.

"(a) No tax shall be imposed under section 3465 upon any payment received for services or facilities furnished to the United States or to any State or Territory, or political subdivision thereof, or the District of Columbia.

"(b) No tax shall be imposed under section 3465 (a) (1) and (2) upon any payment received from any person for services or facilities utilized in the collection of news for the public press (98), *or a news ticker service furnishing a general news service similar to that of the public press,* or radio broadcasting, or in the dissemination of news through the public press (99), *or a news ticker service furnishing a general news service similar to that of the public press,* or by means of radio broadcasting, if the charge for such services or facilities is billed in writing to such person. Section 3465 (a) (3) shall not be construed as imposing a tax on services and facilities described in section 3465 (a) (1) or (2) which are exempt from tax under this subsection.

"(c) The right to exemption under this section shall be evidenced in such manner as the Commissioner with the approval of the Secretary may by regulation prescribe."

SEC. 549. INSTALLMENT, ETC., PAYMENTS.

Section 3441 (c) of the Internal Revenue Code is amended to read as follows:

"(c) (1) In the case of (A) a lease, (B) a contract for the sale of an article wherein it is provided that the price shall be paid by installments and title to the article sold does not pass until a future date notwithstanding partial payment by installments, or (C) a conditional sale, there shall be paid upon each payment with respect to the article that portion of the total tax which is proportionate to the portion of the total amount to be paid represented by such payment.

"(2) In the application of paragraph (1) to the articles with respect to which the rate of tax is increased by the Revenue Act of 1941 or by the Revenue Act of 1940, where the lease, contract of sale, or conditional sale, and delivery thereunder—

"(A) was made before July 1, 1940, the total tax referred to in paragraph (1) shall be the tax at the rate in force on June 30, 1940, and not at any greater rate; or

"(B) was made after June 30, 1940, and before (100)~~July 1, 1941~~ *October 1, 1941*, the total tax referred to in paragraph (1) shall be the tax at the rate in force on (101)~~June 30, 1941~~ *September 30, 1941*, and not at any greater rate.

"(3) Despite the provisions of paragraph (1), no tax

shall be imposed with respect to any article not taxable under the law in existence on the day before the date of the enactment of the Revenue Act of 1941, if with respect to such article the lease, contract for sale, or conditional sale, and delivery thereunder, was made before (102) ~~July 1, 1941~~ *October 1, 1941.*"

SEC. 550. EFFECTIVE DATE OF PART IV.

(a) The amendments made by this Part shall be applicable only with respect to the period beginning with the effective date of this Part, and the rates specified in section 1650 (a), section 1807 (b), section 2004, section 2800 (g), and section 3190 of the Internal Revenue Code shall not apply with respect to such period. This Part shall take effect on (103) ~~the first day of the first month which begins more than 10 days after the date of the enactment of this Act~~ *October 1, 1941.*

(b) Despite the provisions of subsection (a), the tax imposed by section 1700 (e) of the Internal Revenue Code, as amended by section 542 of this Act (relating to cabaret, etc., tax), shall be applicable only with respect to the period beginning at 10:00 A. M. on (104) ~~the effective date of this Part~~ *October 1, 1941*, and the tax imposed by such subsection as in force prior to its amendment by section 542 of this Act, as modified by section 1650 (a) of the Internal Revenue

Code, shall be applicable with respect to the period before 10:00 A. M. on such date.

(c) Despite the provisions of subsection (a), the amendment of section 3465 (a) (2) made by section 548 of this Act (relating to tax on leased-wire, etc., services) shall be applicable only to amounts paid on or after such effective date for services rendered, on or after (105)~~the effective date of this Part, and the provisions of such subsection before its amendment by section 548 shall be applicable with respect to the period before such effective date~~ *October 1, 1941, and the provisions of such subsection before its amendment by section 548 shall be applicable with respect to the period before October 1, 1941.*

(d) Despite the provisions of subsection (a), section 3465 (a) (3) of the Internal Revenue Code (relating to tax on telephone bills), added to the Internal Revenue Code by section 548 of this Act, shall apply only to the amounts paid in pursuance of bills rendered, after (106)~~the expiration of five days after the effective date of this Part~~ *October 5, 1941*, for services for which no previous bill was rendered. Such section 3465 (a) (3) shall not apply to amounts paid for services otherwise taxable under section 3465 (a) (1) which were rendered before (107)~~such effective dates~~ *October 6, 1941*; nor to amounts paid for services otherwise

taxable under section 3465 (a) (2) which were rendered or paid for before (108) such effective date *October 6, 1941.*

Part V—New Excise Taxes

(109) SEC. 551. SOFT DRINKS.

Subchapter A of chapter 29 of the Internal Revenue Code is amended by inserting after section 3401 the following new section:

"SEC. 3402. TAX ON SOFT DRINKS.

"(a) DEFINITIONS.—As used in this section—

"(1) The term 'soft drinks' means carbonated beverages of the kind commonly known as soft drinks, carbonated liquids of the kind commonly known or commonly used as mixers, sparkling waters, and carbonated natural or artificial mineral waters if such mineral waters contain not more than 60 grains of minerals (dried at the temperature of boiling water) per U. S. gallon. As used in this paragraph the term 'carbonated' includes both natural and artificial carbonation.

"(2) The term 'bottler' means any person who places soft drinks in bottles.

"(3) The term 'bottle' means any bottle, can, keg, or similar closed container.

"(b) BOTTLED SOFT DRINKS.—

"(1) IMPOSITION OF TAX.—There shall be im-

posed on soft drinks in bottles sold by the bottler or importer, a tax at the following rates:

"(A) If the bottle contains not more than 33 fluid ounces:

"If bottled or imported to retail at not more than 10 cents per bottle, $\frac{1}{6}$ cent per bottle.

"If bottled or imported to retail at more than 10 cents and not more than 20 cents per bottle, $\frac{1}{3}$ cent per bottle.

"If bottled or imported to retail at more than 20 cents per bottle, $\frac{1}{2}$ cent per bottle.

"(B) If the bottle contains more than 33 fluid ounces, 6 per centum of the price for which so sold.

"(2) RETAIL PRICES.—Whenever in paragraph (1) reference is made to soft drinks bottled or imported to retail at not more than a certain price per bottle, then in determining the tax to be paid regard shall be had to the ordinary retail price of a single bottle in its principal market.

"(c) FINISHED OR FOUNTAIN SYRUPS.—

"(1) IMPOSITION OF TAX.—There shall be imposed upon finished or fountain syrups, of the kind used in manufacturing, compounding, or mixing soft drinks, sold or used by the manufacturer, producer, or importer, a tax of 6 cents per gallon.

"(2) EXEMPT SALES.—No tax shall be imposed under this subsection with respect to the sale of such syrups where it is established to the satisfaction of the Commissioner that such syrups are sold (A) to a bottler for use in the preparation of bottled soft drinks, or (B) to a person, who does not engage in the preparation of soft drinks, for consumption by him in some use other than the preparation of soft drinks.

"(3) EXEMPT USES.—No tax shall be imposed under this subsection with respect to—

"(A) The use of such syrups by the manufacturer, producer, or importer in the preparation of bottled soft drinks; or

"(B) The consumption of such syrups by the manufacturer, producer, or importer, who is not engaged in the preparation of soft drinks, in some use other than the preparation of soft drinks.

"(d) CARBONIC ACID GAS.—

"(1) IMPOSITION OF TAX.—There shall be imposed upon carbonic acid gas in gaseous, liquid, or solid form, suitable for use in the preparation of soft drinks, sold by the manufacturer, producer, or importer, or by a dealer in such gas, to any person who sells soft drinks otherwise than in bottles, a tax of 4 cents per pound.

"(2) EXEMPT SALES.—No tax shall be imposed under this subsection with respect to the sale of carbonic

acid gas where it is established to the satisfaction of the Commissioner that—

"(A) Such gas is sold for use by the vendee in the preparation of bottled soft drinks, or for consumption by him in some use other than the preparation of soft drinks; or

"(B) Such gas is sold for resale by the vendee in the course of his regular business as a dealer in carbonic acid gas, if such gas is in due course so resold.

"(e) INAPPLICABILITY OF PROVISIONS.—The provisions of section 3442 (1) and (2), section 3443 (a) (1), and section 3444, shall not be applicable to the taxes imposed by this section.

"(f) EFFECTIVE DATE.—This section shall take effect on the effective date of Part V of Title V of the Revenue Act of 1941."

SEC. (110)552 *551.* NEW MANUFACTURERS' EXCISE TAXES.

Subchapter A of Chapter 29 of the Internal Revenue Code is amended by inserting after section 3405 the following new section:

"SEC. 3406. EXCISE TAXES IMPOSED BY THE REVENUE ACT OF 1941.

"(a) IMPOSITION.—There shall be imposed on the following articles, sold by the manufacturer, producer, or

importer, a tax equivalent to the rate, on the price for which sold, set forth in the following paragraphs (including in each case parts or accessories of such articles sold on or in connection therewith, or with the sale thereof) :

"(1) SPORTING GOODS.—Badminton nets; badminton rackets (measuring 22 inches over-all or more in length) ; badminton racket frames (measuring 22 inches over-all or more in length) ; badminton racket string; badminton shuttlecocks, badminton standards; baseballs; baseball bats (measuring 26 inches or more in length) ; baseball body protectors and shin guards; baseball gloves and mitts; baseball masks; basketballs; billiard and pool tables (measuring 45 inches over-all or more in length) ; billiard and pool balls and cues for such tables; bowling balls and pins; boxing gloves, masks, head guards, and ear guards; clay pigeons; cricket balls; cricket bats; croquet balls and mallets; curling stones; deck tennis rings, nets, and posts; fencing equipment; fishing rods, creels, (111) ~~reels, and artificial lures, baits, and flies~~ *and reels*; footballs; football harness; football helmets; golf bags (measuring 26 inches or more in length) ; golf balls; golf clubs (measuring 30 inches or more in length) ; gymnasium equipment and apparatus; hockey balls; hockey pucks; hockey sticks (measuring 30 inches or more in length) ; indoor baseballs; indoor baseball bats

(measuring 26 inches or more in length) ; indoor baseball gloves and mitts; lacrosse balls; lacrosse sticks; mass balls; polo balls; polo mallets; push balls; skates; skis; ski poles; snow shoes; snow toboggans and sleds; soccer balls; softball balls; softball bats (measuring 26 inches or more in length) ; softball gloves and mitts; squash balls; squash rackets (measuring 22 inches over-all or more in length) ; squash racket frames (measuring 22 inches over-all or more in length) ; squash racket string; tennis balls; table tennis tables, balls, nets, and paddles; tennis nets; tennis rackets (measuring 22 inches over-all or more in length) ; tennis racket frames (measuring 22 inches over-all or more in length) ; tennis racket string; track hurdles; traps for throwing clay pigeons; vaulting poles, cross bars, and standards; volley balls, nets, and standards; water polo balls and goals; and wrestling head harness; 10 per centum.

"(2) LUGGAGE.—Trunks, valises, traveling bags, suitcases, hat boxes for use by travelers, fitted toilet cases (not including contents), and other traveler's luggage, and leather and imitation leather brief cases, 10 per centum.

"(3) ELECTRIC (112), *GAS, AND OIL* APPLIANCES.—Electric direct motor-driven fans and air circulators; electric (113)~~storage~~, *gas, or oil* water heaters;

electric flatirons; electric air heaters (not including furnaces); electric immersion heaters; electric heating pads and blankets; electric ~~(114)~~, *gas, or oil* appliances of the type used for cooking, warming, or keeping warm food or beverages for consumption on the premises; electric mixers, whippers, and juicers; and household type electric vacuum cleaners; 10 per centum.

"(4) PHOTOGRAPHIC APPARATUS.—Cameras and lenses; unexposed photographic films (including motion picture films but not including X-Ray film), photographic plates and sensitized paper; photographic apparatus and equipment; and any apparatus or equipment designed especially for use in the taking of photographs or motion pictures or in the developing, printing, or enlarging of photographs or motion picture films; 10 per centum.

"(5) ELECTRIC SIGNS.—Neon-tube signs, electric signs, and electric advertising devices, 10 per centum.

"(6) BUSINESS AND STORE MACHINES.—Adding machines, addressing machines, autographic registers, bank proof machines, billing machines, bookkeeping machines, calculating machines, card punching machines, cash registers, change making machines, check writing machines, check signing machines, check cancelling machines, check perforating machines, check cutting

machines, check dating machines, other check protector machine devices, (115)~~comptometers,~~ computing machines, coin counters, dictographs, (116)~~dictaphones, dictaphone~~ *dictating machine* record shaving machines, dictating machines, duplicating machines, embossing machines, envelope opening machines, erasing machines, folding machines, fanfold machines, fare registers, fare boxes, listing machines, line-a-time and similar machines, mailing machines, multigraph machines, multigraph typesetting machines, multigraph type justifying machines, numbering machines, portable paper fastening machines, pay roll machines, pencil sharpeners, postal permit mailing machines, punch card machines, sorting machines, stencil cutting machines, shorthand writing machines, sealing machines, tabulating machines, ticket counting machines, ticket issuing machines, typewriters, transcribing machines, time recording devices, and combinations of any of the foregoing, 10 per centum.

"(7) RUBBER ARTICLES.—Articles of which rubber is the component material of chief weight, 10 per centum. The tax imposed under this paragraph shall not be applicable to footwear, articles designed especially for hospital or surgical use, or articles taxable under any other provision of this Chapter.

"(8) WASHING MACHINES.—Washing machines (117)~~of the kind used in commercial laundries, 10 per centum. No tax shall be imposed under this paragraph on washing machines of the household type~~, *10 per centum.*

"(9) OPTICAL EQUIPMENT.—Refractometers; spectrometers; spectroscopes; colorimeters; polariscopes; optical measuring instruments; telescopic sights; projection lenses and prisms; optical machinery; microscopes; telescopes; photo-micro and micro-projection apparatus; fire control optical instruments; and searchlight mirrors and reflectors; 10 per centum.

(118)"*(10) ELECTRIC LIGHT BULBS.—Electric light bulbs, 10 per centum.*

(119)"*(11) JEWELRY.—All articles commonly or commercially known as jewelry, whether real or imitation; pearls, precious and semi-precious stones, and imitations thereof; articles made of, or ornamented, mounted, or fitted with, precious metals or imitations thereof; watches and clocks and cases and movements therefor; gold, gold-plated, silver, silver-plated, or sterling flatware or hollow ware; opera glasses; lorgnettes; marine glasses; field glasses, and binoculars: 15 per centum. The tax imposed by this paragraph shall not apply to any article used for religious purposes, to surgical instruments, to*

frames or mountings for spectacles or eyeglasses, or to a fountain pen if the only part of the pen which consists of precious metals is the point, or other essential parts not used for ornamental purposes. For the purpose of this section, a retail jeweler who assembles two or more completely finished component parts of jewelry upon which the tax has been paid shall not be considered a manufacturer or producer. Upon articles subject to tax under this paragraph which on October 1, 1941, are held for sale by any person there shall be levied, assessed, collected, and paid a floor stocks tax at the rate of 15 per centum of the price for which such articles are sold, in the ordinary course of trade, by manufacturers or producers thereof, as determined by the Commissioner.

(120)~~"(b) EXEMPTION IF ARTICLE TAXABLE AS JEWELRY.—No tax shall be imposed under this section on any article taxable under section 2400 (relating to jewelry tax).~~

"(121)~~(c)~~ *(b)* EFFECTIVE DATE.—This section shall take effect on (122)~~the effective date of Part V of Title V of the Revenue Act of 1941~~ *October 1, 1941*."

SEC. (123)~~553~~ *552.* NEW RETAILERS' EXCISE TAXES.

(a) IMPOSITION OF TAX.—The Internal Revenue Code is amended by adding after Chapter 18 the following new chapter:

"CHAPTER 19—RETAILERS' EXCISE TAXES

~~(124) "SEC. 2400. TAX ON JEWELRY, ETC.~~

~~"There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 per centum of the price for which so sold: All articles commonly or commercially known as jewelry, whether real or imitation; pearls, precious and semi-precious stones, and imitations thereof; articles made of, or ornamented, mounted or fitted with, precious metals or imitations thereof; watches and clocks and cases and movements therefor; gold, gold-plated, silver, silver-plated or sterling flatware or hollow ware; opera glasses; lorgnettes; marine glasses; field glasses; and binoculars. The tax imposed by this section shall not apply to any article used for religious purposes, to surgical instruments, or to frames or mountings for spectacles or eyeglasses.~~

"SEC. ~~(125) 2401~~ *2400.* TAX ON FURS.

"There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 per centum of the price for which so sold: Articles made of fur on the hide or pelt, and articles of which such fur is the component material of chief value.

"SEC. ~~(126) 2402~~ *2401.* TAX ON TOILET PREPARATIONS.

"(a) TAX.—There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 per centum

of the price for which so sold: Perfumes, essences, extracts, toilet waters, cosmetics, petroleum jellies, hair oils, pomades, hair dressings, hair restoratives, hair dyes, aromatic cachous, toilet powders, and any similar substance, article, or preparation, by whatsoever name known or distinguished; any of the above which are used or applied or intended to be used or applied for toilet purposes.

(127) ~~"(b) BEAUTY PARLORS, ETC.—For the purposes of subsection (a), if any person operating a barber shop, beauty parlor, or similar establishment, uses any article described in subsection (a) in the treatment of any customer or patron, the total amount so used during any month shall be considered as sold at retail by such person during such month, and the fair retail price of such amount, as determined by the Commissioner, shall be considered to be the price at which so sold.~~

(b) BEAUTY PARLORS, ETC.—For the purposes of subsection (a) the sale of any article described in subsection (a) to any person operating a barber shop, beauty parlor, or similar establishment shall be considered a sale at retail; resale by such person shall be subject to tax as a sale at retail, but there shall be credited against the tax payable by such person with respect to such resale the amount of tax paid on the sale to such person.

"SEC. (128)~~2403~~ *2402.* **RETURN AND PAYMENT OF RETAILERS' EXCISE TAXES.**

"(a) Every person who sells at retail any article taxable under this chapter shall make monthly returns under oath in duplicate and pay the taxes imposed by this chapter to the collector for the district in which is located his principal place of business or, if he has no principal place of business in the United States, then to the collector at Baltimore, Maryland. Such returns shall contain such information and be made at such times and in such manner as the Commissioner, with the approval of the Secretary, may by regulations prescribe.

"(b) The tax shall, without assessment by the Commissioner or notice from the collector, be due and payable to the collector at the time so fixed for filing the return. If the tax is not paid when due, there shall be added as part of the tax interest at the rate of 6 per centum per annum from the time when the tax became due until paid.

(129)*"(c) In determining, for the purposes of this chapter, the price for which an article is sold, there shall be included any charge for coverings and containers of whatever nature, and any charge incident to placing the article in condition packed ready for shipment, but there shall be excluded the amount of tax imposed by this chapter, whether or not stated as a separate charge. A transportation, delivery, insurance,*

installation, or other charge (not required by the foregoing sentence to be included) shall be excluded from the price only if the amount thereof is established to the satisfaction of the Commissioner, in accordance with the regulations. There shall also be excluded, if stated as a separate charge, the amount of any retail sales tax imposed by any State or Territory or political subdivision of the foregoing, or the District of Columbia, whether the liability for such tax is imposed on the vendor or the vendee.

"SEC. (130)~~2404~~ *2403.* DEFINITION OF SALE.

"For the purposes of this chapter, the lease of an article shall be considered the sale of such article.

"SEC. (131)~~2405~~ *2404.* LEASES, CONDITIONAL SALES, ETC.

"In the case of (a) a lease, (b) a contract for the sale of an article wherein it is provided that the price shall be paid by installments and title to the article sold does not pass until a future date notwithstanding partial payment by installments, or (c) a conditional sale, there shall be paid upon each payment with respect to the article that portion of the total tax which is proportionate to the portion of the total amount to be paid represented by such payment. No tax shall be imposed under this chapter on the sale of any article taxable under section 2400 (132)~~or section 2401~~ if with respect to such article the lease, contract for sale, or conditional sale was made, delivery thereunder was made, and

a part of the consideration was paid, before ~~(133) July 1, 1941~~ *October 1, 1941*.

"SEC. ~~(134) 2406~~ *2405*. TAX-FREE SALES.

"Under regulations prescribed by the Commissioner with the approval of the Secretary, no tax under this chapter shall be imposed with respect to the sale of any article—

"(a) for the exclusive use of the United States, any State, Territory of the United States, or any political subdivision of the foregoing, or the District of Columbia;

"(b) for export, or for shipment to a possession of the United States, and in due course so exported or shipped.

"SEC. ~~(135) 2407~~ *2406*. CREDITS AND REFUNDS.

"(a) A credit against tax under this chapter, or a refund, may be allowed with respect to an article, when the price on which the tax was based is readjusted by reason of return or repossession of the article, or by a bona fide discount, rebate, or allowance, in the amount of that part of the tax proportionate to the part of the price which is refunded or credited.

"(b) No overpayment of tax under this chapter shall be credited or refunded, in pursuance of a court decision or otherwise, unless the person who paid the tax establishes, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, (1) that he has not in-

cluded the tax in the price of the article with respect to which it was imposed, or collected the amount of tax from the purchaser, or (2) that he has repaid the amount of the tax to the purchaser of the article, or unless he files with the Commissioner written consent of such purchaser to the allowance of the credit or refund.

"SEC. ~~(136)2408~~ *2407.* APPLICABILITY OF ADMINISTRATIVE PROVISIONS.

"All provisions of law (including penalties) applicable in respect of the taxes imposed by section 2700 shall, insofar as applicable and not inconsistent with this chapter, be applicable in respect of the taxes imposed by this chapter.

~~(137)~~*"SEC. 2408. PENALTY FOR REPRESENTATION THAT TAX IS NOT PASSED ON.*

"Whoever in connection with the sale or lease, or offer for sale or lease, of any article taxable under this chapter, makes any statement, written or oral, in advertisement or otherwise, intended or calculated to lead any person to believe that the price of the article does not include the tax imposed by this chapter, shall on conviction thereof be punished by a fine of not more than $1,000.

"SEC. 2409. RULES AND REGULATIONS.

"The Commissioner, with the approval of the Secretary, shall prescribe and publish all needful rules and regulations for the enforcement of this chapter.

"SEC. 2410. EFFECTIVE DATE.

"This chapter shall be effective on and after (138) ~~the effective date of Part V of Title V of the Revenue Act of 1941~~ *October 1, 1941.*"

(b) TERMINATION OF MANUFACTURERS' TAX ON TOILET PREPARATIONS.—The tax imposed by section 3401 of the Internal Revenue Code shall not apply to articles sold on or after (139) ~~the effective date of this Part~~ *October 1, 1941.*

(140) *SEC. 553. ADMINISTRATIVE CHANGES IN MANUFACTURERS' EXCISE TAX TITLE OF CODE.*

(a) LEASES.—Section 3440 of the Internal Revenue Code is amended to read as follows:

"SEC. 3440. DEFINITION OF SALE.

"For the purposes of this chapter the lease of an article (including any renewal or any extension of a lease or any subsequent lease of such article) by the manufacturer, producer, or importer shall be considered a taxable sale of such article."

(141) *(b) EXISTING CONTRACTS.—Chapter 29 of the Internal Revenue Code is amended by adding at the end thereof the following new section:*

"SEC. 3453. EXISTING CONTRACTS.

"(a) TAX PAYABLE BY VENDEE.—If (1) any person has, prior to the effective date of Part V of Title V of the

Revenue Act of 1941, made a bona fide contract for the sale on or after such date, of any article with respect to the sale of which a tax is imposed by that Act or an existing rate of tax is increased by that Act, and (2) such contract does not permit the adding to the amount to be paid under such contract of the whole of such tax or increased rate of tax, then (unless the contract prohibits such addition) the vendee shall, in lieu of the vendor, pay so much of the tax as is not so permitted to be added to the contract price.

"(b) TAX PAID TO VENDOR.—Taxes payable by the vendee shall be paid to the vendor at the time the sale is consummated, and shall be collected and paid to the United States by the vendor in the same manner as provided in section 3467. In case of failure or refusal by the vendee to pay such taxes to the vendor, the vendor shall report the facts to the Commissioner who shall cause collection of such taxes to be made from the vendee."

(142) *(c) UNEXPOSED MOTION PICTURE FILMS.—Section 3443 (a) (3) (A) of the Internal Revenue Code (relating to credits or refunds of tax to manufacturer) is amended by inserting at the end thereof the following new clause:*

"(v) in the case of unexposed motion picture films, used or resold for use in the making of news reel motion picture films."

(143) *(d) CREDITS, AND TAX FREE SALES OF AUTOMO-*

BILE RADIOS.—Section 3403 (e), section 3442, section 3443 (a) (1) and section 3444 (a) (1) and (2) of the Internal Revenue Code (relating to tax in case of sale of tires to manufacturers of automobiles, etc., and credit on sale) are amended by striking out "tires or inner tubes" wherever appearing therein and inserting "tires, inner tubes, or automobile radios"; and by striking out "tire or inner tube" wherever appearing therein and inserting "tire, inner tube, or automobile radio".

(144) *(e) Section 2800 of the Internal Revenue Code is amended by adding at the end thereof a new subsection lettered "(j)" reading as follows:*

"(j) The Commissioner shall, upon the filing of a claim therefor, make refund of the distilled spirits tax, imposed by Section (a) (1) hereof, at the rate of $1 per proof gallon, to any person who subsequent to the effective date hereof has used distilled spirits, produced in a domestic registered distillery or industrial alcohol plant, in the manufacture or production of an article intended for use for non-beverage purposes, upon proof by him to the satisfaction of the Commissioner that such distilled spirits (1) were produced in a domestic registered distillery or industrial alcohol plant; (2) were fully taxpaid; (3) were used by him in the manufacture or production of an article intended by him for use for

non-beverage purposes and such article was sold by him for such purposes; and (4) that he has not shifted to others to any extent the burden of that portion of the tax included in such claim for refund. Such claim shall be filed with the Commissioner within 90 days from the date the applicant sells the product for non-beverage purposes.

"The Commissioner, with the approval of the Secretary, is authorized to make such rules and regulations as may be necessary to carry out the provisions of this subsection."

SEC. 554. TRANSPORTATION OF PERSONS, ETC.

(a) The heading of Subchapter C is amended to read as follows: **"SUBCHAPTER D—ADMINISTRATIVE PROVISIONS".**

(b) Chapter 30 of the Internal Revenue Code is amended by inserting after section 3468 the following new subchapter:

"SUBCHAPTER C—TRANSPORTATION OF PERSONS

"SEC. 3469. TAX ON TRANSPORTATION OF PERSONS, ETC.

"(a) TRANSPORTATION.—There shall be imposed upon the amount paid within the United States, on or after ~~(145)the effective date of Part V of Title V of the Revenue Act of 1941~~ *October 1, 1941*, for the transportation, on or after such effective date, of persons by rail, motor vehicle, water, or air, within or without the United States, a tax equal to 5 per centum of the amount so paid. Such tax

shall apply to transportation by motor vehicles having a passenger seating capacity of less than 10 adult passengers, including the driver, only when such vehicle is operated on an established line.

"(b) EXEMPTION OF CERTAIN TRIPS.—The tax imposed by subsection (a) shall not apply to amounts paid for transportation which do not exceed 35 cents, to amounts paid for commutation or season tickets for single trips of less than thirty miles, or to amounts paid for commutation tickets for one month or less.

"(c) SEATS, BERTHS, ETC.—There shall be imposed upon the amount paid within the United States for seating or sleeping accommodations in connection with transportation with respect to which a tax is imposed by subsection (a) a tax equivalent to 5 per centum of the amount so paid.

"(d) RETURNS AND PAYMENT.—The taxes imposed by this section shall be paid by the person making the payment subject to the tax. Each person receiving any payment specified in subsection (a) or (c) shall collect the amount of the tax imposed from the person making such payment, and shall, on or before the last day of each month, make a return, under oath, for the preceding month, and pay the taxes so collected to the collector in the district in which his principal place of business is located, or if he has no principal

place of business in the United States, to the collector at Baltimore, Maryland. Such returns shall contain such information and be made in such manner as the Commissioner with the approval of the Secretary may by regulations prescribe.

"(e) EXTENSIONS OF TIME.—The Commissioner may extend the time for making returns and paying the taxes collected, under such rules and regulations as he shall prescribe with the approval of the Secretary, but no such extension shall be for more than ninety days.

(146) ~~"(f) GOVERNMENTAL EXEMPTION.—The tax imposed by this section shall not apply to the payment for transportation or facilities furnished to the United States, or to any State or Territory, or political subdivision thereof, or the District of Columbia."~~

"(f) EXEMPTIONS.—

"(1) GOVERNMENTAL EXEMPTION.—The tax imposed by this section shall not apply to the payment for transportation or facilities furnished to the United States, or to any State or Territory, or political subdivision thereof, or the District of Columbia.

"(2) EXEMPTION OF MEMBERS OF MILITARY AND NAVAL SERVICE.—The tax imposed by this section shall not apply to the payment for transportation or facilities furnished under special tariffs providing for fares of not

more than 1¼ cents per mile applicable to round trip tickets sold to personnel of the United States Army, Navy, Marine Corps, and Coast Guard traveling in uniform of the United States at their own expense when on official leave, furlough, or pass, including authorized cadets and midshipmen, issued on presentation of properly executed certificate."

(c) STAMP TAX ON PASSAGE TICKETS NOT TO APPLY.—No tax shall be imposed under Chapter 11 of the Internal Revenue Code on a ticket sold or issued for passage the amount paid for which is taxable under section 3469 of the Internal Revenue Code.

(d) TECHNICAL AMENDMENTS.—

(1) Section 55 (a) (2) of the Internal Revenue Code is amended by striking out "subchapters A and B of".

(2) Section 3471 (a) and (c) are amended by inserting after "subchapter B" wherever occurring therein "or subchapter C".

(3) Section 3472 of the Internal Revenue Code is amended by striking out "of subchapters A and B".

SEC. 555. COIN-OPERATED AMUSEMENT AND GAMING DEVICES.

Subchapter A of Chapter 27 of the Internal Revenue Code is amended by adding at the end thereof the following new Part:

"Part IX—Coin-Operated Amusement and Gaming Devices

"SEC. 3267. TAX ON COIN-OPERATED AMUSEMENT AND GAMING DEVICES.

"(a) RATE.—Every person who maintains for use or permits the use of, on any place or premises occupied by him, a coin-operated amusement or gaming device shall pay a special (147)~~tax of $25 per year in respect of such device, and shall pay an additional special tax of $25 per year for each additional such device so maintained or the use of which is so permitted.~~ *tax as follows:*

"(1) $10 per year in the case of a device defined in clause (1) of subsection (b);

"(2) $50 per year, in the case of a device defined in clause (2) of subsection (b); and

"(3) $10 or $50, as the case may be, for each additional device so maintained or the use of which is so permitted. If one such device is replaced by another, such other device shall not be considered an additional device.

"(b) DEFINITION.—As used in this Part, the term 'coin-operated amusement and gaming devices' means (1) so-called 'pin-ball' and other similar amusement machines, operated by means of the insertion of a coin, token, or similar object, and (2) so-called 'slot' machines which operate by means of insertion of a coin, token, or similar object and which, by application of the element of chance, may deliver, or entitle

the person playing or operating the machine to receive, cash, premiums, merchandise, or tokens. The term does not include bona fide vending machines in which are not incorporated gaming or amusement features.

"(c) APPLICABILITY OF ADMINISTRATIVE PROVISIONS.—An operator of a place or premises who maintains for use or permits the use of any coin-operated device shall be considered, for the purposes of Subchapter B, to be engaged in a trade or business in respect of each such device.

"(d) EFFECTIVE DATE OF TAX.—With respect to the year ending June 30, 1942, no tax shall be payable under this Part for any period prior to (148)~~the effective date of Part V of Title V of the Revenue Act of 1941~~ *October 1, 1941.*"

SEC. 556. BOWLING ALLEYS, ETC.

Subchapter A of Chapter 27 of the Internal Revenue Code is amended by adding at the end thereof the following new Part:

"Part X—Bowling Alleys, and Billiard and Pool Tables

"SEC. 3268. TAX ON BOWLING ALLEYS, AND BILLIARD AND POOL TABLES.

"(a) RATE.—Every person who operates a bowling alley, billiard room, or pool room shall pay a special tax of (149)~~$15~~ *$10* per year for each bowling alley, billiard table, or pool table. Every building or place where bowls are

thrown or where games of billiards or pool are played, except in private homes, shall be regarded as a bowling alley, billiard room, or pool room, respectively.

"(b) EFFECTIVE DATE OF TAX.—With respect to the year ending June 30, 1942, no tax shall be payable under this Part for any period prior to (150)~~the effective date of Part V of Title V of the Revenue Act of 1941~~ *October 1, 1941*."

(151)~~SEC. 557. OUTDOOR ADVERTISING.~~

~~Subchapter A of Chapter 27 of the Internal Revenue Code is amended by adding at the end thereof the following new Part:~~

~~"Part XI—Outdoor Advertising~~

~~"SEC. 3269. TAX ON OUTDOOR ADVERTISING.~~

~~"(a) TAX.—Every person who engages in business as a lessor of billboards for outdoor advertising shall pay with respect to each billboard maintained or controlled by him for use in such business a special tax at the following rates:~~

~~"Tax Classification~~	
~~"For each billboard having an advertising space area of:~~	~~Per Annum~~
~~"(1) Not more than 100 square feet~~	~~$1.00~~
~~"(2) More than 100 and not more than 200 square feet~~	~~2.00~~
~~"(3) More than 200 and not more than 300 square feet~~	~~3.00~~
~~"(4) More than 300 and not more than 400 square feet~~	~~5.00~~
~~"(5) More than 400 and not more than 600 square feet~~	~~8.00~~
~~"(6) More than 600 square feet~~	~~11.00~~

~~"(b) ADDITIONAL BILLBOARDS.—Where a person has paid the special tax with respect to each of a number of~~

billboards of the same tax classification and thereafter discontinues the maintenance or control of one or more, and also assumes the maintenance or control of additional billboards of the same tax classification, he shall pay special tax only with respect to so many of such additional billboards as exceed the number with respect to which he has already paid special tax.

"(c) DEFINITIONS.—As used in this section—

"(1) The term 'billboard' means any outdoor structure or device primarily designed for the display of advertising matter, and includes so called 'sign space' on the exterior of a building the use of which is controlled by a person engaged in business as lessor of billboards for outdoor advertising.

"(2) The term 'lessor' means any person who maintains or controls the use of billboards and, for compensation, displays advertising matter thereon for another person or permits the display of advertising matter thereon by another person.

"(d) PENALTIES.—Any person liable for the special tax under this section with respect to any billboard maintained or controlled by him who fails to pay such tax, besides being liable for the payment of the tax, shall be fined not more than $50 for each offense.

"(e) OTHER LAWS APPLICABLE.—All administrative

~~and penalty provisions of subchapters A, B, and C of Chapter 11, insofar as applicable, shall apply to the special tax imposed by subsection (a) and to the persons upon whom imposed.~~

~~"(f) EFFECTIVE DATE OF TAX.—With respect to the year ending June 30, 1942, no tax shall be payable under this Part for any period prior to the effective date of Part V of Title V of the Revenue Act of 1941."~~

SEC. ~~(152)~~558 557. USE OF MOTOR VEHICLES AND BOATS.

The Internal Revenue Code is amended by inserting after Chapter 33 the following new chapter:

"CHAPTER 33A—USE OF MOTOR VEHICLES AND BOATS

"SEC. 3540. TAX ON USE OF MOTOR VEHICLES AND BOATS.

"(a) IMPOSITION OF TAX.—There shall be imposed upon the use of motor vehicles and boats a tax, with respect to each year in which such use occurs, at the following rates:

"(1) Motor vehicles—$5.

"(2) BOATS.—

"Over-all length 16 feet or over but not over 28 feet, $5.

"Over-all length over 28 feet but not over 50 feet, $10.

"Over-all length over 50 feet but not over 100 feet, $40.

"Over-all length over 100 feet but not over 150 feet, $100.

"Over-all length over 150 feet but not over 200 feet, $150.

"Over-all length over 200 feet, $200.

Such tax, in the case of a motor vehicle, shall be paid by the person in whose name the motor vehicle is, or is required to be, registered under the law of the State, Territory, or the District of Columbia in which such motor vehicle is, or is required to be, registered. Such tax, in the case of a boat, shall be paid by the owner of the boat. The tax imposed by this section shall not apply to any use before February 1, 1942, and use before such date shall not be considered to be use within the meaning of this section.

"(b) DEFINITIONS.—For the purposes of this section—

"(1) The term 'year' means the year beginning July 1.

"(2) The term 'motor vehicle' means all motor vehicles of the kind chiefly used for highway transportation.

"(3) The term 'boat' means all boats propelled by machinery, sail, or both, measuring 16 feet or more in over-all length, owned by a citizen or resident of the United States. Such term does not include boats used

(153)~~exclusively~~ *chiefly* for trade, or commercial fishing, or boats used without profit by any benevolent, charitable, or religious organization exclusively for furnishing aid, comfort, or relief to seamen (154), *or boats used by the sea scouts department of the Boy Scouts of America chiefly for training scouts in seamanship.*

"(4) The term 'use' in the case of the use of a motor vehicle means use on the public highways.

"(c) PRORATION OF TAX.—If in any year the first use of the motor vehicle or boat is after July 31 the tax shall be reckoned proportionately from the first day of the month in which such use occurs to and including the 30th day of June following.

"(d) ONE PAYMENT PER YEAR.—If the tax imposed by this section is paid with respect to any motor vehicle or boat for any year no further tax shall be imposed for such year with respect to such motor vehicle or boat.

"(e) EVIDENCE OF TAX PAYMENT.—The payment of the tax imposed by this section shall be evidenced by such suitable stamp, sticker, or tag of such form, which shall be affixed to the motor vehicle or boat in such manner, as the Commissioner, with the approval of the Secretary, may by regulations prescribe.

"(f) MANNER OF COLLECTION.—The place, time, and manner of making payment of the tax, and of furnishing such

stamp, sticker, or tag shall be such as may be provided in regulations prescribed by the Commissioner with the approval of the Secretary.

"(g) COOPERATION OF POST OFFICE DEPARTMENT.—The Commissioner shall furnish to the Postmaster General without prepayment a suitable quantity of stamps, stickers, or tags to be distributed to and kept on sale by postmasters in the United States. The Postmaster General may require each such postmaster to give additional or increased bond as postmaster for the value of the stamps, stickers, or tags furnished to him, and each such postmaster shall deposit the receipts from the sale of such stamps, stickers, or tags to the credit of and render accounts to the Postmaster General at such times and in such form as he may by regulations prescribe. The Postmaster General shall at least once monthly transfer all collections from this source to the Treasury as internal-revenue collections. The Postmaster General is authorized to cooperate to the fullest extent possible with the Commissioner in the sale of such stamps, stickers, or tags and in forwarding to the Commissioner or to the collector of internal revenue such blanks or forms as the Commissioner may determine necessary to the collection of the tax. (155) *The Secretary of the Treasury is hereby authorized and directed to advance from time to time to the Postmaster General such sums as the Postmaster General may*

show shall be required for the expenses of the Post Office Department in performing in the District of Columbia and elsewhere all services required by this section.

"(h) SALE OF STAMPS BY PRIVATE PERSONS.—If the Commissioner provides for the sale of stamps, stickers, or tags by persons not officers or employees of the United States he may require bond, with sufficient sureties, in a sum to be fixed by the Commissioner, conditioned for the faithful return, whenever required, of all quantities or amounts undisposed of, and for the payment for, all quantities or amounts sold or not remaining on hand. The Commissioner, with the approval of the Secretary, may from time to time make such regulations as he may find necessary to insure the safekeeping or prevention of illegal use of all such stamps, stickers, or tags.

"(i) PENALTIES FOR UNLAWFUL USE.—Any person liable for the tax under this section who uses or permits the use of the motor vehicle or boat before tax has been paid shall be guilty of a misdemeanor and upon conviction thereof shall be fined not more than $25 or imprisoned for not more than 30 days, or both. Any person who uses or operates a motor vehicle or boat at a time when the stamp, sticker, or tag does not appear on the motor vehicle or boat in the manner provided in the regulations prescribed under sub-

section (e) or (f) shall be guilty of a misdemeanor and upon conviction thereof shall be fined not more than $25.

"(j) EXEMPT USES.—The tax imposed by this section shall not apply to the use of a motor vehicle or boat by the United States, a State, Territory, the District of Columbia, or a political subdivision of any of the foregoing."

SEC. (156)~~559~~ *558.* EFFECTIVE DATE OF PART V.

This Part shall take effect on (157)~~the first day of the first month which begins more than 10 days after the date of the enactment of this Act~~ *October 1, 1941.*

(158)*Part VI—Processing Tax on Certain Oils*

SEC. 561. PAYMENT OF PROCEEDS OF PROCESSING TAX TO GUAM AND AMERICAN SAMOA.

(a) PAYMENT TO POSSESSIONS.—Chapter 21 of the Internal Revenue Code (relating to processing tax on oils) is amended by adding at the end thereof the following new section:

"SEC. 2483. All taxes collected under this chapter with respect to coconut oil wholly of the production of Guam or American Samoa or produced from materials wholly of the growth or production of Guam or American Samoa, shall be held as separate funds and paid to the Treasury of Guam or American Samoa, respectively. No part of the money from such funds shall be used, directly or indirectly, to pay a subsidy to the producers or processors of copra, coconut oil, or

allied products, except that this sentence shall not be construed as prohibiting the use of such money, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, for the acquisition or construction of facilities for the better curing of copra or for bona fide loans to copra producers of Guam or American Samoa."

(b) EFFECTIVE DATE OF AMENDMENT.—The amendment made by this section shall be applicable only with respect to taxes collected after the date of enactment of this Act.

(159) ~~TITLE VI—RADIO BROADCASTING AND NETWORK TAX~~

~~SEC. 601. TAX ON RADIO BROADCASTING STATIONS AND NETWORKS.~~

~~Subtitle B of the Internal Revenue Code is amended by inserting after chapter 6 the following new chapter:~~

~~"CHAPTER 6A~~

~~"SEC. 1220. TAX ON RADIO BROADCASTING STATIONS AND NETWORKS.~~

~~"(a) RATE.—For each calendar year beginning after December 31, 1941, there shall be imposed upon every person with respect to operating a radio broadcasting station or engaging in network broadcasting for any part of such year, an excise tax computed as follows:~~

~~"(1) If the net time sales exceed $100,000 and do not exceed $500,000, an amount equal to 5 per centum~~

of the net time sales, or an amount equal to the net time sales in excess of $100,000, whichever is the lesser.

"(2) If the net time sales exceed $500,000 and do not exceed $1,000,000, an amount equal to 10 per centum of the net time sales, or an amount equal to $25,000 plus the amount of the net time sales in excess of $500,000, whichever is the lesser.

"(3) If the net time sales exceed $1,000,000, an amount equal to 15 per centum of the net time sales, or an amount equal to $100,000 plus the amount of the net time sales in excess of $1,000,000, whichever is the lesser.

"(b) DEFINITIONS.—For the purposes of this section—

"(1) 'Network broadcasting' means the making of arrangements with persons operating radio broadcasting stations for the simultaneous broadcast of an identical program by two or more connected stations and the distribution of programs by wire or radio to such persons.

"(2) 'Time sales' means the gross amount received or accrued from the sale of broadcast time. Where the sale is for a consideration other than money the gross amount considered to be received or accrued shall be the seller's published card rate for broadcast time. Where the sale is for a consideration, less a commis-

sion to an advertising agency (whether such sale is made to such agency or its principal) the amount of such commission (not in excess of 15 per centum of such consideration) shall be excluded in determining the gross amount received or accrued with respect to such sale.

"(3) 'Net time sales' means time sales minus the amounts paid or incurred for broadcast time to other persons operating radio stations or engaged in network broadcasting.

"SEC. 1221. RETURNS.

"(a) REQUIREMENT.—Every person liable for tax under section 1220 shall make a return under oath. Such return shall contain such information and be made in such manner as the Commissioner with the approval of the Secretary may by regulations prescribe.

"(b) TIME FOR FILING.—

"(1) GENERAL RULE.—Such return shall be made within two months after the close of the year with respect to which such tax is imposed.

"(2) EXTENSION OF TIME.—The Commissioner may extend the time for making the returns, under such rules and regulations as he may prescribe with the approval of the Secretary, but no such extension shall be for more than sixty days.

~~"(c) PLACE FOR FILING.—The return shall be made to the collector for the district in which is located the principal place of business of the taxpayer, or, if it has no principal place of business in the United States, then to the collector at Baltimore, Maryland.~~

~~"SEC. 1222. OTHER LAWS APPLICABLE.~~

~~"All provisions of law (including penalties) applicable in respect of the taxes imposed by chapter 6 shall, insofar as not inconsistent with this chapter, be applicable in respect of the tax imposed by this chapter."~~

(160) *TITLE VI—NONESSENTIAL FEDERAL EXPENDITURES*

SEC. 601. NONESSENTIAL FEDERAL EXPENDITURES.

(a) There is hereby established a committee to investigate Federal expenditures (hereinafter referred to as the "committee"), to be composed of (1) three members of the Senate Committee on Finance and three members of the Senate Committee on Appropriations, to be appointed by the President of the Senate; (2) three members of the House Committee on Ways and Means and three members of the House Committee on Appropriations, to be appointed by the Speaker of the House of Representatives; and (3) the Secretary of the Treasury, and the Director of the Bureau of the Budget. A vacancy in the committee shall not affect the power of the remaining members to execute the functions of

the committee, and shall be filled in the same manner as the original selection. A majority of the committee shall constitute a quorum, and the powers conferred upon them by this section may be exercised by a majority vote.

(b) It shall be the duty of the committee to make a full and complete study and investigation of all expenditures of the Federal Government with a view to recommending the elimination or reduction of all such expenditures deemed by the committee to be nonessential. The committee shall report to the President and to the Congress the results of its study, together with its recommendations, at the earliest practicable date.

(c) The committee, or any duly authorized subcommittee thereof, is authorized to hold such hearings, to sit and act at such times and places, to employ such experts and such clerical and other assistants, to require by subpena or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, to take such testimony, and to make such expenditures, as it deems advisable. The provisions of sections 102 to 104, inclusive, of the Revised Statutes shall apply in case of any failure of any witness to comply with any subpena, or to testify when summoned under the authority of this section.

(d) The committee is authorized to utilize the services, information, facilities, and personnel of the departments and agencies of the Government.

(e) There is hereby authorized to be appropriated, the sum of $10,000, or so much thereof as may be necessary, to carry out the provisions of this section.

(f) All authority conferred by this section shall terminate upon the submission of the committee's final report.

(161) *SEC. 602. Section 1303 of the Revenue Act of 1918, as amended, is amended by striking out "President of the Senate" wherever it appears therein and inserting in lieu thereof "President pro tempore of the Senate".*

(162) ***TITLE VII—CREDIT AGAINST FEDERAL UNEMPLOYMENT TAXES AND MISCELLANEOUS AMENDMENTS***

SEC. 701. CREDIT AGAINST FEDERAL UNEMPLOYMENT TAXES.

(a) ALLOWANCE OF CREDIT AGAINST TAX FOR 1936, 1937, AND 1938.—Against the tax imposed by section 901 of the Social Security Act for the calendar year 1936, 1937, or 1938, any taxpayer shall be allowed credit (if credit is not allowable under section 902 of such Act) for the amount of contributions paid by him into an unemployment fund under a State law—

(1) Before the sixtieth day after the date of the enactment of this Act, if such credit is claimed before the expiration of six months after such date of enactment;

(2) Without regard to the date of payment, with respect to wages paid after September 19, 1939;

(3) Without regard to the date of payment, if the assets of the taxpayer are, at any time during the fifty-nine-day period following such date of enactment, or were at any time during the period August 11, 1939, to October 8, 1939, inclusive, or the period October 9, 1940, to December 6, 1940, inclusive, in the custody or control of a receiver, trustee, or other fiduciary appointed by, or under the control of, a court of competent jurisdiction. The provisions of the Social Security Act in force prior to February 11, 1939 (except the provision limiting the credit to amounts paid before the date of filing returns), shall apply to allowance of credit under this subsection; except that the amount of credit against the tax for the calendar year 1936, 1937, or 1938, for contributions paid after December 6, 1940, shall not (unless the credit is allowable on account of paragraph (2) or (3)) exceed 90 per centum of the amount which would have been allowable as credit on account of such contributions had they been paid before the last day upon which the taxpayer was required under section 905 of such Act to file a return for such year. The terms used in this subsection shall have the same meaning as when used in title IX of such Act prior to February 11, 1939. The total credit allowable against the tax imposed by section 901 of such Act for the calendar year 1936, 1937, or 1938 shall not exceed 90 per centum of such tax.

(b) ALLOWANCE OF CREDIT AGAINST TAX FOR 1939 AND 1940.—Against the tax imposed by the Federal Unemployment Tax Act for the calendar year 1939 or 1940, any taxpayer shall be allowed credit (if credit is not allowable under section 1601 of such Act) for the amount of contributions paid by him into an unemployment fund under a State law—

(1) Before the sixtieth day after the date of the enactment of this Act, if such credit is claimed before the expiration of six months after such date of enactment;

(2) Without regard to the date of payment, if the assets of the taxpayer are, at any time during the fifty-nine-day period following such date of enactment, or were at any time during the period from the last day upon which the taxpayer was required under section 1604 of the Federal Unemployment Tax Act to file a return of the tax against which credit is claimed to June 30 next following such last day, inclusive, or (in the case of credit against the tax for the calendar year 1939) the period October 9, 1940, to December 6, 1940, inclusive, in the custody or control of a receiver, trustee, or other fiduciary appointed by, or under the control of, a court of competent jurisdiction.

The provisions of the Federal Unemployment Tax Act (ex-

cept section 1601 (a) (3)), including such provisions as modified by section 902 (e) of the Social Security Act Amendments of 1939, shall apply to allowance of credit under this subsection. The amount of such credit against the tax for the calendar year 1939 or 1940, in the case of contributions paid after the last day upon which the taxpayer was required under section 1604 of the Federal Unemployment Tax Act to file a return for such year, shall not (unless the credit is allowable on account of paragraph (2)) exceed 90 per centum of the amount which would have been allowable as credit on account of such contributions had they been paid on or before such last day. The terms used in this subsection shall have the same meaning as when used in the Federal Unemployment Tax Act. The total credit allowable against the tax imposed by such Act for the calendar year 1939 or 1940 shall not exceed 90 per centum of such tax.

(c) REFUND.—Refund, credit, or abatement of the tax (including penalty and interest assessed or collected with respect thereto, if any), based on any credit allowable under subsection (a) or (b), may be made in accordance with the provisions of law applicable in the case of erroneous or illegal assessment or collection of the tax (including statutes of limitations). No interest shall be allowed or paid on the amount of any such credit or refund. On and after the date of the

enactment of this Act no refund, credit, or abatement shall be allowed based on any credit allowable under section 810 of the Revenue Act of 1938, section 902 (a) of the Social Security Act Amendments of 1939, or section 701 of the Second Revenue Act of 1940.

(163) ***SEC. 702. SOCIAL SECURITY BOARD APPROPRIATION FOR EMPLOYMENT OFFICES.***

The Act approved July 1, 1941 (Public Law Numbered 146, Seventy-seventh Congress), entitled "An Act making appropriations for the Department of Labor, the Federal Security Agency, and related independent agencies, for the fiscal year ending June 30, 1942, and for other purposes", under title II, under the heading "Social Security Board", is amended by repealing so much thereof as reads: "and elsewhere, in connection with the operation of employment office facilities and services essential to expediting the national-defense program" and inserting in said Act the words: "for the purposes described in the last paragraph of the part of this Act relating to the Social Security Board".

(164) ***SEC. 703. AMENDMENT TO ACT SUSPENDING PROFIT-LIMITING PROVISIONS OF VINSON ACT.***

Section 401 of the Second Revenue Act of 1940 is amended by adding at the end thereof the following new sentence: "For the purposes of this section, a contract or subcontract shall be deemed to be completed on the date on which

final delivery and acceptance of the vessel or other article specified therein is made."

Passed the House of Representatives August 4, 1941.

Attest: SOUTH TRIMBLE,
Clerk.

Passed the Senate with amendments September 5 (legislative day, September 2), 1941.

Attest: EDWIN A. HALSEY,
Secretary.

77TH CONGRESS
1ST SESSION

H. R. 5417

AN ACT

To provide revenue, and for other purposes.

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 5 (legislative day, SEPTEMBER 2), 1941

Ordered to be printed with the amendments of the Senate numbered

77TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 1203

THE REVENUE BILL OF 1941

LIBRARY
AGRICULTURAL ECONOMICS

SEPTEMBER 15, 1941.—Ordered to be printed

Mr. DOUGHTON, from the committee of conference, submitted the following

CONFERENCE REPORT

[To accompany H. R. 5417]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 5417) to provide revenue, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendments numbered 39, 41, 49, 54, 56, 63, 64, 65, 79, 91, 93, 94, 111, 117, 119, 120, 121, 125, 126, 128, 130, 131, 132, 134, 135, 136, 144, 163, and 164.

That the House recede from its disagreement to the amendments of the Senate numbered 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 43, 44, 45, 46, 47, 48, 50, 51, 52, 53, 59, 61, 62, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 92, 95, 98, 99, 100, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 112, 113, 114, 115, 116, 122, 123, 127, 129, 133, 138, 139, 140, 141, 142, 146, 147, 148, 149, 150, 151, 152, 153, 154, 156, 157, 158, 159, 160, and 161 and agree to the same.

Amendment numbered 1:

That the House recede from its disagreement to the amendment of the Senate numbered 1, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

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Sec. 103. Corporation defense tax rates incorporated in rate schedules.
Sec. 104. Surtax on corporations and termination of defense tax.
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Sec. 106. Tax on foreign corporations.
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Sec. 109. Reduction in pursuance of treaties of rates of tax and withholding on nonresident alien individuals resident in, and corporations organized under laws of, Western Hemisphere countries.
Sec. 110. Defense tax rates on personal holding companies and transfers to avoid income tax incorporated in rate schedules.
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Sec. 113. Credit for dependents.
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Sec. 115. Short-term obligations issued on a discount basis.
Sec. 116. Information returns with respect to Federal obligations.
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Sec. 118. Taxable years to which amendments applicable.

Title II—Excess Profits Tax

Sec. 201. Excess profits tax rates and credits.
Sec. 202. Deduction of excess-profits tax.
Sec. 203. New capital.
Sec. 204. Corporations engaged in mining strategic metals.
Sec. 205. Taxable years to which amendments applicable.

Title III—Capital Stock Tax and Declared Value Excess-Profits Tax

Sec. 301. Capital stock tax.
Sec. 302. Declared value excess-profits tax—Defense tax rates incorporated in rate schedule.

Title IV—Estate and Gift Taxes

Sec. 401. Estate tax rates.
Sec. 402. Gift tax rates.

Title V—Excise Taxes

Part I—1932 excise taxes made permanent

Sec. 501. 1932 excise taxes made permanent.
Sec. 502. Pipe line tax.
Sec. 503. Technical amendment.
Sec. 504. Bond tax.
Sec. 505. Conveyance tax.

Part II—Defense tax rates made permanent (no increase in tax and no change in basis of tax)

Sec. 521. Defense excise tax rates made permanent which are not increased by this Act.

PART III—INCREASES IN RATES OF EXISTING EXCISE TAXES

Sec. 531. Playing cards.
Sec. 532. Safe deposit boxes.
Sec. 533. Distilled spirits.
Sec. 534. Wines.
Sec. 535. Tires and tubes.
Sec. 536. Effective date of Part III.

PART IV—CHANGES IN BASIS OF COMPUTING TAX (RATES INCREASED IN CERTAIN CASES)

Sec. 541. Admissions tax.
Sec. 542. Cabaret, roof garden, etc., tax.
Sec. 543. Club dues.
Sec. 544. Automobile, truck, bus, and parts tax.
Sec. 545. Radios, phonographs, records, and musical instruments.
Sec. 546. Mechanical refrigerators.
Sec. 547. Matches.
Sec. 548. Telephone, telegraph, etc.
Sec. 549. Installment, etc., payments.
Sec. 550. Effective date of Part IV.

PART V—NEW EXCISE TAXES

Sec. 551. New manufacturers' excise taxes.
Sec. 552. New retailers' excise taxes.
Sec. 553. Administrative changes in manufacturers' excise tax title of Code.
Sec. 554. Transportation of persons, etc.
Sec. 555. Coin-operated amusement and gaming devices.
Sec. 556. Bowling alleys, etc.
Sec. 557. Use of motor vehicles and boats.
Sec. 558. Effective date of Part V.

PART VI—PROCESSING TAX ON CERTAIN OILS

Sec. 561. Payment of proceeds of processing tax to Guam and American Samoa.

TITLE VI—NONESSENTIAL FEDERAL EXPENDITURES

Sec. 601. Nonessential Federal expenditures.

TITLE VII—CREDIT AGAINST FEDERAL UNEMPLOYMENT TAXES

Sec. 701. Credit against Federal unemployment taxes.

And the Senate agree to the same.

Amendment numbered 40:

That the House recede from its disagreement to the amendment of the Senate numbered 40, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 117. EXTENSION OF TIME OF ORDERS OF SECURITIES AND EXCHANGE COMMISSION.

(a) EXTENSION.—Section 373 (a) of the Internal Revenue Code (relating to the definition of orders of the Securities and Exchange Commission with respect to which Supplement R applies) is amended to read as follows:

"(a) The term 'order of the Securities and Exchange Commission' means an order (1) issued after May 28, 1938, and prior to January 1, 1943, by the Securities and Exchange Commission to effectuate the provisions of section 11 (b) of the Public Utility Holding Company Act of 1935, 49 Stat. 820 (U. S. C., Supp. V, Title 15, section 79k (b)), or (2) issued by the Commission subsequent to December 31, 1942, in which it is expressly stated that an order of the character specified in clause (1) is amended or supplemented, and (3) which has become final in accordance with law."

(b) EFFECTIVE DATE OF AMENDMENT.—The amendment made by this section shall be applicable only with respect to taxable years beginning after December 31, 1939.

And the Senate agree to the same.

Amendment numbered 42:

That the House recede from its disagreement to the amendment of the Senate numbered 42, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *118*; and the Senate agree to the same.

Amendment numbered 55:

That the House recede from its disagreement to the amendment of the Senate numbered 55, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *205*; and the Senate agree to the same.

Amendment numbered 57:

That the House recede from its disagreement to the amendment of the Senate numbered 57, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

(c) RETURNS FOR 1941.—Section 1203 (b) (2) of the Internal Revenue Code (relating to extensions of time for filing capital-stock tax returns) is amended by inserting at the end thereof the following: "With respect to the year ending June 30, 1941, the extension may be for not more than 90 days.".

And the Senate agree to the same.

Amendment numbered 58:

That the House recede from its disagreement to the amendment of the Senate numbered 58, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *(d)*; and the Senate agree to the same.

Amendment numbered 60:

That the House recede from its disagreement to the amendment of the Senate numbered 60, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SEC. 302. DECLARED VALUE EXCESS PROFITS TAX—DEFENSE TAX RATES INCORPORATED IN RATE SCHEDULE.

(a) RATES.—Section 600 of the Internal Revenue Code (relating to rate of declared value excess profits tax) is amended as follows:

(1) By striking out the heading "(a) GENERAL RULE.—";

(2) By amending the rate schedule to read as follows:

"6⅘ per centum of such portion of its net income for such income-tax taxable year as is in excess of 10 per centum and not in excess of 15 per centum of the adjusted declared value;

"13⅘ per centum of such portion of its net income for such income-tax taxable year as is in excess of 15 per centum of the adjusted declared value."; and

(3) By repealing subsection (b) (relating to defense tax for five years).

(b) EFFECTIVE DATE.—This section shall be effective only with respect to income-tax taxable years ending after June 30, 1941.

And the Senate agree to the same.

Amendment numbered 80:

That the House recede from its disagreement to the amendment of the Senate numbered 80, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *30 cents*; and the Senate agree to the same.

Amendment numbered 96:

That the House recede from its disagreement to the amendment of the Senate numbered 96, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"(1) (A) In the case of each telephone or radio telephone message or conversation which originates within the United States, for which the charge is more than 24 cents, a tax of five cents for each 50 cents, or fraction thereof, of the charge.

"(B) In the case of each telegraph, cable, or radio dispatch or message which originates within the United States, a tax of 10 per centum of the amount of the charge.

Only one payment of a tax imposed by subparagraph (A) or (B) shall be required notwithstanding the lines or stations of one or more persons are used in the transmission of such dispatch, message, or conversation.

"(2) (A) A tax equivalent to 10 per centum of the amount paid for leased wire, teletypewriter, or talking circuit special service.

"(*B*) *A tax equivalent to 5 per centum of the amount paid for any wire and equipment service (including stock quotation and information services, burglar alarm or fire alarm service, and all other similar services, but not including service described in subparagraph (A)).*

And the Senate agree to the same.

Amendment numbered 97:

That the House recede from its disagreement to the amendment of the Senate numbered 97, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *6 per centum*; and the Senate agree to the same.

Amendment numbered 118:

That the House recede from its disagreement to the amendment of the Senate numbered 118, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"(*10*) ELECTRIC LIGHT BULBS AND TUBES.—*Electric light bulbs and tubes, not including articles taxable under any other provision of this subchapter, 5 per centum.*

And the Senate agree to the same.

Amendment numbered 124:

That the House recede from its disagreement to the amendment of the Senate numbered 124, and agree to the same with an amendment, as follows:

Restore the matter proposed to be stricken out by the Senate amendment and on page 68, line 15, of the House bill before the period insert a comma and the following: *or to a fountain pen if the only parts of the pen which consist of precious metals are essential parts not used for ornamental purposes*; and the Senate agree to the same.

Amendment number 137:

That the House recede from its disagreement to the amendment of the Senate numbered 137, and agree to the same with an amendment, as follows:

On page 41, line 17, of the Senate engrossed amendments strike out "2408" and insert *2409*; on page 72, line 11, of the House bill strike out "2409" and insert *2410*; and on page 72, line 15, of the House bill strike out "2410" and insert *2411*; and the Senate agree to the same.

Amendment numbered 143:

That the House recede from its disagreement to the amendment of the Senate numbered 143, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

(*d*) CREDITS, AND TAX FREE SALES OF AUTOMOBILE RADIOS.—*Section 3442, section 3443 (a) (1), and section 3444 (a) (1) and (2) of the Internal Revenue Code (relating to tax in case of sale of tires to manufacturers of automobiles, etc., and credit on sale) are amended by*

striking out "tires or inner tubes" wherever appearing therein and inserting "tires, inner tubes, or automobile radios taxable under section 3404"; and by striking out "tire or inner tube" wherever appearing therein and inserting "tire, inner tube, or automobile radio taxable under section 3404". Section 3403 (e) of the Internal Revenue Code, as amended by this Act, is further amended by striking out "tires and inner tubes" where the phrase appears the first time and inserting "tires, inner tubes, or automobile radios"; paragraph (1) of subsection (e) of such section is amended by inserting before the semicolon "or, in the case of automobile radios, if such radios were taxable under section 3404"; paragraph (2) of subsection (e) of such section is amended by striking out "tires or inner tubes" wherever such phrase appears and inserting "tires, inner tubes, or automobile radios".

And the Senate agree to the same.

Amendment numbered 145:

That the House recede from its disagreement to the amendment of the Senate numbered 145, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *October 10, 1941*; and the Senate agree to the same.

Amendment numbered 155:

That the House recede from its disagreement to the amendment of the Senate numbered 155, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: *There are authorized to be appropriated such sums as may be necessary to enable the Secretary of the Treasury to advance from time to time to the Postmaster General such sums as the Postmaster General may show shall be required for the expenses of the Post Office Department in performing in the District of Columbia and elsewhere all services required by this section.*

And the Senate agree to the same.

Amendment numbered 162:

That the House recede from its disagreement to the amendment of the Senate numbered 162, and agree to the same with an amendment, as follows:

On page 51, lines 8 and 9 of the Senate engrossed amendments strike out "AND MISCELLANEOUS AMENDMENTS"; and the Senate agree to the same.

R. L. Doughton,
Thos. H. Cullen,
Jere Cooper,
John W. Boehne, Jr.,
Allen T. Treadway,
Harold Knutson,
Daniel A. Reed,
Managers on the part of the House.

Walter F. George,
David I. Walsh,
Alben W. Barkley,
Arthur Capper,
James J. Davis,
Managers on the part of the Senate.

STATEMENT OF THE MANAGERS ON THE PART OF THE HOUSE

The managers on the part of the House at the conference on the disagreeing votes of the two houses on the amendments of the Senate to the bill (H. R. 5417) to provide revenue, and for other purposes, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

Amendment No. 1: This amendment changes the table of contents and the House recedes with an amendment conforming the table of contents to the bill as agreed to in conference.

Amendment No. 2: This amendment integrates the defense tax with the basic surtax rates in the House bill. The lowest surtax bracket rate is therefore 6 percent as compared with 5 percent under the House bill and the highest rate is 77 percent as compared with 75 percent under the existing law and under the House bill. The House recedes.

Amendment No. 3: The Senate amendment adds to the Internal Revenue Code a new supplement, designated Supplement T, to provide for the optional use of a simplified return where the gross income does not exceed $3,000, in order that persons in the lower-income tax brackets, particularly those brought in by the reduction of the personal exemption, may be caused a minimum of difficulty in filling out their returns. There were no comparable provisions in the House bill.

If the taxpayer elects to use this simplified plan, the amount of the tax may be readily ascertained by reference to a table contained in the bill. This simplified return may be used only where the taxpayer's income is derived solely from salaries, wages, compensation for personal services, dividends, interest, rent, annuities, or royalties. If the taxpayer elects to use this method, no deductions or credits against net income are allowed. In lieu of these deductions and credits, the tax provided in the table represents a reduction, with respect to the average taxpayer in the bracket, of 10 percent of the tax that would otherwise be payable without such deductions or credits. This 10-percent reduction has been found to be the effect of the average amount of deductions taken by persons in these brackets. One set of rates is provided for married persons or heads of families and another is provided for single persons (not heads of families). In determining the amount payable, the taxpayer in either case reduces his gross income by $400 for each dependent; then by reference to the appropriate table he ascertains the tax set out opposite the amount so determined.

It should be kept in mind that the use of the simplified return is at the option of the taxpayer and he elects each year whether to use this method or to file under the general provisions. However, once the return for any year has been filed under this method, the election shall be irrevocable, and if the taxpayer files under the general provisions

for any year he may not thereafter elect for such year to be taxed under the simplified method. Nonresident alien individuals, estates, or trusts are not allowed to use the simplified method.

The House recedes.

Amendment No. 4: The House bill made permanent the defense tax imposed by section 15 of the Internal Revenue Code as added by section 201 of the Revenue Act of 1940. The Senate amendment integrates the defense tax rates with the rates provided in section 13 (b) (1) and (2) of the code, making the basic rate 24 percent. In the case of corporations having net incomes of $25,000 or less, the rates under existing law (including the defense tax) are graduated as follows: 14.85 percent on normal tax net incomes not in excess of $5,000; 16.5 percent on the portion of such net income in excess of $5,000 and not in excess of $20,000; and 18.7 percent on the excess over $20,000. The Senate amendment integrating the defense tax applicable to such net incomes makes the rates 15, 17 and 19 percent, respectively. Under the Senate amendment the alternative tax applicable to corporations having net incomes slightly in excess of $25,000 is $4,250 plus 37 percent of the normal tax net income in excess of $25,000. Under this provision the full tax rate of 24 percent does not become effective until the normal tax net income of the corporation reaches $38,461.54.

This amendment also integrates the defense tax with the normal taxes on resident foreign corporations and on mutual investment companies, and with the surtax on corporations improperly accumulating surplus.

The House recedes.

Amendments Nos. 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, and 17: Section 102 of the House bill imposed upon all corporations (including insurance companies) except nonresident foreign corporations, and mutual investment companies (the latter being dealt with separately) a surtax of 5 percent upon the first $25,000 of the corporation's surtax net income and 6 percent upon the excess of such income over $25,000. "Corporation surtax net income" was defined as net income minus the credit for dividends received provided in section 26 (b) and thus includes partially tax-exempt interest in the tax base. The section also imposed upon mutual investment companies a surtax upon Supplement Q surtax net income of such companies at rates corresponding to those imposed upon corporations generally.

The Senate amendments retain the surtax but in lieu of the rates provided in the House bill the amendment provides a surtax of 6 percent on the first $25,000 surtax net income and 7 percent on the remainder. Since the credit for interest on partially tax-exempt Government securities is not allowable in computing surtax net income, the Senate amendment also provides that for the purposes of the surtax the dividends received credit shall be limited to 85 percent of the net income rather than 85 percent of the adjusted net income.

These amendments also terminate the defense tax, the defense tax rates being integrated with the basic rates.

The House recedes.

Amendments Nos. 18, 19, 20, 21, 22, 23, 24, 25, 26, and 27: The House bill increased the rates of tax on nonresident alien individuals and foreign corporations and made permanent the defense tax. These amendments retain the increased rates but terminate the

defense tax and integrate the 10 percent defense tax with the basic rates. The amendments also reduce from $23,800 to $23,000 the amount of the gross income at which a nonresident alien individual becomes subject to the full normal and surtax rates. The amount of $23,000 represents the approximate point at which, under the provisions of the bill, an effective rate of 27½ percent is reached. The House recedes.

Amendments Nos. 28, 29, and 30: These are changes in section numbers; and the House recedes.

Amendment No. 31: This amendment integrates the defense tax with the basic rates of tax imposed upon personal holding companies and transfers to avoid income tax and terminates the defense tax. The House recedes.

Amendment No. 32: This amendment incorporates a new section amending section 25 (b) (1) of the Code to lower the personal exemption of a married person or the head of a family from $2,000 to $1,500 and the personal exemption of a single person or a married person not living with husband or wife from $800 to $750. The section also amends section 25 (b) (1) to provide a personal exemption of $750 for a married person whose spouse files a separate return under Supplement T, added by section 102 of the bill. See amendment No. 3.

The section also amends sections 214 and 251 (f) of the Internal Revenue Code to provide in the case of nonresident aliens and citizens entitled to the benefits of section 251 a personal exemption of $750 in lieu of $800 to conform with the changes made in section 25 (b).

The tax bill as reported by the Committee on Ways and Means contained a provision requiring a joint income tax return from a husband and wife living together. This provision was estimated to yield additional revenue of about $300,000,000. It was stricken from the bill by the House.

As reported by the Finance Committee to the Senate, the bill contained a provision taxing a husband and wife in a community property State on exactly the same basis as persons similarly situated in non-community property States. This provision was estimated to yield $46,800,000. It was eliminated by the Senate with the understanding that it would be the subject of hearings and action in the administrative bill.

In view of the action by the House and Senate in this regard, in order to make up this substantial loss in revenue, it is necessary to lower the personal exemption of married persons from $2,000 to $1,500 and of single persons from $800 to $750. This section will produce added revenue of $303,000,000, or approximately the amount lost by the elimination of the joint return provision.

This reduction in the personal exemption will require the filing of 4,930,000 new income tax returns and will increase the number of income tax payers by 2,275,000. Of the 4,930,000 new returns, 4,453,000 will come from married persons and heads of families and 477,000 will come from single persons. Of the 2,275,000 new taxpayers, 1,850,000 will be married persons and 425,000 will be single.

Of the total amount of additional revenue to be secured from lowering the exemptions, approximately $47,000,000 will come from new taxpayers. Of this amount, only $10,000,000 will come from new income tax returns. The balance of this additional revenue, $256,000,000 will be secured from persons taxable under existing law.

The question of the joint return and the treatment of community-property income will be further considered by the Committees on

Ways and Means and Finance in connection with the bill dealing with administrative matters.

The House recedes.

Amendment No. 33: This amendment incorporates a new section to amend sections 51 (a), 142 (a), and 147 (a) relating to the requirement for individual and fiduciary returns and information returns in order to conform such requirement with the changes in the personal exemption. The House recedes.

Amendment No. 34: This is a change in section number; and the House recedes.

Amendment No. 35: This is a change in section number; and the House recedes.

Amendment No. 36: This amendment makes a clerical change; and the House recedes.

Amendment No. 37: This amendment provides that the issuing discount on certain short-term Federal, State, and local government obligations issued on a discount basis on or after March 1, 1941, shall not be deemed to accrue until such obligations are paid at maturity, sold, or otherwise disposed of, and that such obligations shall not be treated as capital assets within the meaning of section 117 of the Internal Revenue Code. The principal effect of this amendment is to eliminate the necessity (except in the case of life-insurance companies) for making an allocation between interest and capital gain or loss on the disposition of any such obligation and the necessity for including any portion of the original discount in income for any taxable year other than that in which such obligation is paid at maturity, sold, or otherwise disposed of. Thus, under the amendment a person owning a Treasury bill issued on or after March 1, 1941, would not be required to include any portion of the original discount in income for any taxable year until that in which it is paid at maturity, sold, or otherwise disposed of, and for such year would need only to compare the sales price, or the amount paid at maturity, with the purchase price or other basis, and account for the net gain or loss. This amendment is applicable to taxable years ending after February 28, 1941. The House recedes.

Amendment No. 38: This is a change in section number; and the House recedes.

Amendment No. 39: By this amendment, the Senate adds a new section to the bill, section 117, entitled "Alimony and separate maintenance payments." This section of the bill amended sections 22, 23, and 25 of the Internal Revenue Code and added a new section to Supplement E of chapter 1 of the code in order to treat periodic payments in the nature of or in lieu of alimony or an allowance for support as income to a divorced or legally separated spouse or former spouse actually receiving such payments and to allow the other spouse (or former spouse) to deduct or exclude from his income an amount on account of such payments. The conferees have deferred action on the merits of this amendment with the understanding that it will be considered in a later bill dealing with administrative matters. The Senate recedes.

Amendment No. 40: This amendment extends from January 1, 1941, to January 1, 1943, the time during which an order may be issued by the Securities and Exchange Commission, relating to certain transactions arising out of the simplification or geographical integration of

public-utility holding-company systems, under which orders such transactions are treated as tax-free exchanges under Supplement R of the Internal Revenue Code.

The House recedes with a technical amendment.

Amendment No. 41: This amendment amends section 23 (a) (1) of the Internal Revenue Code by inserting after the words "taxable year" the words "in conserving and conducting the business affairs of the taxpayer". The conferees have deferred action on the merits of this amendment with the understanding that it will be considered in a later bill dealing with administrative matters. They were advised by the Treasury Department that wherever possible final decision by the Bureau of Internal Revenue on issues arising under the *Higgins* v. *Smith* decision would be deferred pending such later legislation. The Senate recedes.

Amendment No. 42: This is a change in section number and the House recedes with an amendment making a further change in section number.

Amendment No. 43: This is a technical amendment and the House recedes.

Amendments Nos. 44, 45, 46, and 47: The House bill imposed a special 10-percent excess-profits tax, in certain cases where the invested capital credit is used, upon the excess of the adjusted excess profits net income under the income method over the adjusted excess profits net income under the invested capital method.

These amendments strike from the House bill the provisions relating to this tax. The House recedes.

Amendment No. 48: This is a change in section number; and the House recedes.

Amendment No. 49: This is a technical amendment related to Amendment No. 57. In view of the action on amendment No. 57 the Senate recedes.

Amendment No. 50: This is a change in section number; and the House recedes.

Amendment No. 51: This is a technical amendment designed to make the limitations of section 718 (a) (6) (A) of the Internal Revenue Code, added by section 205 of the House bill, applicable to certain exchanges of the same character as those described in the House bill but which were technically not within such provision because they are governed by Supplement R of the Code rather than section 112 (b) (3), (4) or (5). The House recedes.

Amendment No. 52: This amendment makes a clerical change; and the House recedes.

Amendment No. 53: This amendment has the effect of preventing a distribution of taxable stock dividends out of pre-1941 accumulated earnings and profits from constituting new capital solely because of subsequent operating losses or because of subsequently accumulated but undistributed earnings and profits, and also has the effect of preventing money or property paid in from constituting new capital if such money or property merely takes the place of pre-1941 accumulated earnings and profits previously distributed after the beginning of the first taxable year which begins after December 31, 1940. The House recedes.

Amendment No. 54: This amendment strikes out section 206 of the House bill, which provides that section 731 of the Internal Revenue

Code (exempting from excess-profits tax income derived from mining certain metals) shall not apply with respect to any taxable year beginning after December 31, 1940. The Senate recedes.

Amendment No. 55: This is a change in section number and the House recedes with an amendment making a further change in section number.

Amendment No. 56: This is a technical amendment rendered unnecessary by the action taken on Senate amendment No. 57; and the Senate recedes.

Amendment No. 57: This amendment allows corporations subject to the capital-stock tax to make a new declaration of capital-stock value annually and permits the Commissioner to grant an additional extension of 30 days for the filing of capital-stock tax returns for the year ending June 30, 1941. The House recedes with an amendment restoring the existing law with respect to the declaration of capital-stock valuation.

Amendment No. 58: This amendment changed a subsection designation from "(c)" to "(f)". The House recedes with an amendment changing the designation to "(d)".

Amendment No. 59: This is a clerical amendment; and the House recedes.

Amendment No. 60: This amendment integrates the defense tax rate of the declared value excess profits tax with the basic rate, and makes technical changes in connection with amendment No. 57, allowing declaration of capital-stock value annually for capital-stock tax purposes. The House recedes with an amendment eliminating the technical changes, rendered unnecessary by the action on Senate amendment No. 57.

Amendments Nos. 61 and 62: The House bill increased the rates applicable to the additional estate tax with respect to decedents dying after the date of enactment of the act, and made permanent the defense tax on net estates imposed by section 951 of the Internal Revenue Code. By reason of the integration of the defense tax and the additional estate tax, these amendments further increase the rates applicable to the additional estate tax, and repeal section 951 of the Internal Revenue Code, which relates to the defense tax rate. The House recedes.

Amendment No. 63: This is an administrative amendment to the estate tax provisions of the Internal Revenue Code and the Revenue Act of 1926, relating to the deduction from the gross estate of property previously taxed. The conferees have deferred action on the merits of this amendment with the understanding that it will be considered in a later bill dealing with administrative matters. The Senate recedes.

Amendment No. 64: This is an administrative amendment to the estate tax provisions of the Internal Revenue Code, relating to the determination of the deduction for charitable, etc., bequests. The conferees have deferred action with the understanding that it will be considered in a later bill dealing with administrative matters. The Senate recedes.

Amendment No. 65: This amendment makes a change in section number; and the Senate recedes.

Amendments Nos. 66 and 70: The House bill increased the rates for computing the gift tax for the calendar year 1942 and each calendar

year thereafter, and made permanent the defense tax imposed for five years by section 1001 (d) of the Internal Revenue Code. By reason of the integration of the defense tax and the gift tax, these amendments further increase the rates for computing the gift tax, and repeal section 1001 (d) of the Internal Revenue Code, which relates to the defense tax rate. The House recedes.

Amendments Nos. 67, 68, and 69: These amendments make clerical changes; and the House recedes.

Amendments Nos. 71, 72, 73, 74 and 76: These amendments eliminate the differential in favor of brandy and subject brandy to the same $4 rate as other distilled spirits. In connection with this change a clerical amendment is made in the heading of section 533 (a) and the floor stocks tax on brandy is made $1.25, the difference between the rate of $2.75 under existing law and the $4 rate under the Senate amendment. The House recedes.

Amendments Nos. 75, 77 and 78: These are clerical amendments dependent upon amendment No. 89, which changes the effective date of part III; and the House recedes.

Amendments Nos. 79, 80, 81, 82 and 83: These amendments increase the House bill rates on still wines from 8, 24 and 50 cents to 10, 35 and 65 cents, respectively; the rate of 4 cents on sparkling wines to 7 cents; and the rate of 2¼ cents on artificially carbonated wines and on liqueurs, cordials, and similar compounds to 3½ cents. The House recedes on amendments Nos. 81, 82 and 83 and recedes on amendment No. 80 with an amendment reducing the 35-cent rate on still wines containing more than 14 percent and not exceeding 21 percent of absolute alcohol to 30 cents. The Senate recedes on amendment No. 79, thereby reverting to the 8-cent rate in the House bill on still wines containing not more than 14 percent of absolute alcohol.

Amendments Nos. 84, 85 and 86: These are clerical amendments dependent upon amendment No. 89, which changes the effective date of part III; and the House recedes.

Amendment No. 87: The House bill imposed a floor stocks tax on tires and tubes held for sale on the effective date of part III of title V of the Revenue Act of 1941. The amendment makes the tax applicable to tires and tubes held on October 1, 1941, the effective date of such part under amendment No. 89; and the House recedes.

Amendment No. 88: The House bill made amendments made by part III of title V applicable with respect to the period beginning with the effective date of this part. The amendment makes the amendments made by part III of title V applicable with respect to the period beginning with October 1, 1941; and the House recedes.

Amendment No. 89: The House bill provided that part III of title V shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this act. The amendment makes part III effective October 1, 1941; and the House recedes.

Amendments Nos. 90 and 92: The House bill exempted from admissions tax payments for admission which are less than 10 cents. It also provided that amounts paid for admission by season ticket or subscription should be exempt only if the amount which would be charged to the holder or subscriber for a single admission would be less than 10 cents. These amendments allow the exemption with respect to

charges under 10 cents only as to children under 12 years of age and eliminate the provision of the House bill relative to season tickets or subscriptions; and the House recedes.

Amendment No. 91: The House bill exempted children under 12 years of age from the provision that in the case of persons admitted free or at reduced rates an equivalent tax shall be collected based on the price charged to other persons for the same or similar accommodations. The amendment extends the exemption to persons under 18 years of age; and the Senate recedes.

Amendments Nos. 93 and 94: The House bill terminated the exemptions from admissions tax extended by section 1701 of the Internal Revenue Code with respect to, among others, certain religious, educational, or charitable entertainments; agricultural fairs; and certain concerts conducted by certain civic or community membership associations. The amendments restore these exemptions and also exempt admissions to entertainments conducted by public or parochial, elementary or high schools; and the Senate recedes.

Amendment No. 95: This amendment makes the floor stocks tax on matches imposed by the House bill effective on October 1, 1941, the effective date of part IV of title V of the bill under amendment No. 103; and the House recedes.

Amendment No. 96: By section 548 the House bill imposed on telephone, telegraph, cable, and radio dispatches, messages, and conversations for which the charge is more than 24 cents, a tax at the rate of 5 cents for each 50 cents or fraction thereof of the charge. The amendment confines this tax to telephone or radio telephone messages or conversations and imposes in the case of each telegraph, cable, or radio dispatch or message a tax of 10 per centum of the amount of the charge.

Section 548 of the House bill also imposed a tax equivalent to 5 percent of the amount paid for (A) leased wire or talking circuit special service or (B) wire and equipment service (including teletypewriter service, burglar alarm service, news ticker service and stock quotation and information services, and all other similar services). The amendment imposes a 10-percent tax with respect to leased wire, teletypewriter or talking circuit special service and a 5-percent tax with respect to amounts paid for wire and equipment service, but not including burglar or fire alarm service.

The House recedes with an amendment subjecting burglar and fire alarm service to the 5-percent tax.

Amendment No. 97: This amendment increases the tax imposed on the amount paid by subscribers for local telephone service from 5 percent as fixed by the House bill to 10 percent; and the House recedes with an amendment fixing the rate at 6 percent.

Amendments Nos. 98 and 99: The House bill, in certain cases, exempts from the taxes under section 3465 of the Internal Revenue Code, as amended by section 548 of the House bill, any payment received from any person for services or facilities utilized in the collection of news for the public press, or radio broadcasting, or in the dissemination of news through the public press. The amendments also exempt news-ticker services furnishing a general news service similar to that of the public press; and the House recedes.

Amendments Nos. 100, 101, and 102: The House bill provided that in the case of leases, contracts of sale, or conditional sales and deliv-

eries thereunder made before July 1, 1941, payments made subsequent to the effective date of part IV of Title V were to be taxed at the rate in force prior to such effective date. The amendments apply this provision to leases, contracts of sale, and conditional sales and deliveries thereunder made prior to October 1, 1941, the effective date of such part under amendment No. 103. The House recedes.

Amendments Nos. 103, 104, 105, 106, 107, and 108: These amendments change the effective dates of certain provisions, the effective date in the case of amendments Nos. 103, 104, and 105, being October 1, 1941, and the effective date in the case of amendment No. 106 being October 5, 1941, and in the case of amendments Nos. 107 and 108, being October 6, 1941; and the House recedes.

Amendment No. 109: This amendment eliminates the taxes on soft drinks, finished or fountain syrups and carbonic acid gas imposed by the House bill; and the House recedes.

Amendment No. 110: This is a change of section number; and the House recedes.

Amendment No. 111: This amendment eliminates the tax imposed by the House bill on artificial lures, baits, and flies; and the Senate recedes.

Amendments Nos. 112, 113, and 114: These amendments make the tax imposed by the House bill on certain electrical appliances applicable also to gas or oil water heaters and gas or oil appliances used for cooking, warming, etc.; and the House recedes.

Amendments Nos. 115 and 116: These amendments delete the names of certain business appliances made taxable by the House bill and provide appropriate descriptions for such appliances not already covered under other designations; and the House recedes.

Amendment No. 117: The House bill taxed only washing machines of the kind used in commercial laundries. The amendment extends the tax to domestic washing machines and other washing machines generally; and the Senate recedes.

Amendment No. 118: This amendment imposes a 10 percent manufacturers' excise tax on electric light bulbs. The House recedes with an amendment excluding articles otherwise taxable, reducing the tax to 5 percent, and making it clear that the tax applies to electric light tubes.

Amendments Nos. 119 and 124: The House bill imposed a tax on jewelry and other enumerated articles sold at retail. Amendment No. 124 deletes this tax but amendment No. 119 substitutes a tax on similar articles sold by the manufacturer, producer, or importer with an exemption of fountain pens if the only part of the pen which consists of precious metals is the point or other essential part not used for ornamental purposes. The Senate recedes on amendment No. 119. The House recedes on amendment No. 124 with an amendment restoring the tax on articles sold at retail, and excepting fountain pens if the only parts of the pen which consist of precious metals are points or other essential parts not used for ornamental purposes.

Amendment No. 120: This amendment eliminates a provision of the House bill that an article subject to jewelry tax shall not be subject to any other tax imposed by section 551 (552 of the House bill); and the Senate recedes.

Amendment No. 121: This amendment is clerical; and the Senate recedes.

Amendment No. 122: This amendment makes the effective date of section 551, October 1, 1941, instead of the first day of the first month which begins more than 10 days after the enactment of the act; and the House recedes.

Amendment No. 123: This is a change in section number; and the House recedes.

Amendments Nos. 125 and 126: These are changes in section numbers; and the Senate recedes.

Amendment No. 127: Under the House bill, toilet preparations used by a barber shop, beauty parlor, or similar establishment, in the treatment of any customer or patron were considered as sold at retail and were subject to tax at 10 percent of their fair retail price, as determined by the Commissioner. Under the amendment, sales of toilet preparations to such establishments are treated as sales at retail. Sales by such establishments are also considered sales at retail under the amendment, but in such a case the tax imposed is credited with the tax paid on the sale to the establishment. The House recedes.

Amendment No. 128: This is a change in section number and the Senate recedes.

Amendment No. 129: This amendment provides certain rules for determining the taxable price of an article subject to retailers' excise tax. It provides that charges for coverings and containers and for placing the article in condition packed ready for shipment shall be included, but excludes the tax itself. There is also excluded, if stated as a separate charge, the amount of any retail sales tax imposed by any State, or Territory, or political subdivision of the foregoing, or the District of Columbia. The House recedes.

Amendments Nos. 130 and 131: These amendments change section numbers; and the Senate recedes.

Amendments Nos. 132 and 133: The House bill provided that the retail excise taxes should not apply to jewelry or furs if the article was the subject of a lease, contract for sale, or conditional sale and delivery was made and part of the consideration was paid before July 1, 1941. Amendment No. 132 is a technical amendment related to amendments Nos. 124 and 126. Amendment No. 133 changes "July 1, 1941" to "October 1, 1941". The Senate recedes on amendment No. 132, in conformity with the action on amendments Nos. 124 and 126. The House recedes on amendment No. 133.

Amendments Nos. 134, 135, and 136: These amendments change section numbers; and the Senate recedes.

Amendment No. 137: This amendment prohibits, under penalty, in connection with the sale or lease, or offer for sale or lease, of any article subject to retailers' excise tax, the making of any statement, written or oral, in advertisement or otherwise, intended or calculated to lead any person to believe that the price does not include the tax. The House recedes with a clerical amendment.

Amendments Nos. 138 and 139: These amendments make the retailers' excise taxes effective as of October 1, 1941, and terminate the manufacturers' tax on toilet articles as of the same date; and the House recedes.

Amendment No. 140: This amendment, in clarification of existing language, amends section 3440 of the Internal Revenue Code to pro-

vide specifically that a renewal or extension of a lease, or subsequent lease, shall be considered a taxable sale. The House recedes.

Amendment No. 141: This amendment permits liability for a manufacturers' excise tax imposed by the bill to be shifted from the manufacturer to the vendee in any case where, prior to the effective date of part V of title V of the bill (October 1, 1941, under amendment No. 156), any person has made a bona fide contract for the sale after that date of any article with respect to the sale of which a tax is imposed or an existing tax is increased by the bill and such contract does not permit the adding of the tax, unless the contract prohibits such addition. The House recedes.

Amendment No. 142: This amendment provides a refund of the tax on photographic apparatus imposed by section 551 (552 in the House bill) paid on unexposed motion picture films used or resold for use in the making of news reel motion picture films; and the House recedes.

Amendment No. 143: This amendment allows, with respect to automobile radios sold or used in connection with the sale of automobiles and similar articles, a credit similar to that allowed with respect to tires and tubes when so sold or used. The House recedes with a clarifying amendment.

Amendment No. 144: Under this amendment, refund of tax paid on distilled spirits would, under certain limitations therein provided, be allowed at the rate of $1 per proof gallon in the case of distilled spirits used in the manufacture or production of an article intended for use for nonbeverage purposes and sold for such use. The Senate recedes.

Amendment No. 145: This amendment makes the tax on payments for transportation of persons applicable with respect to payments on or after October 1, 1941, instead of the first month which begins more than ten days after the date of the enactment of the act, as provided in the House bill. The House recedes with an amendment changing the date to October 10, 1941.

Amendment No. 146: This amendment, in certain cases, exempts from transportation tax payments for transportation of military or naval personnel; and the House recedes.

Amendment No. 147: The House bill imposed an occupational tax of $25 per annum with respect to the operation of a pin-ball game, a slot machine, or similar amusement or gaming device. The amendment establishes two different rates of tax; $10 per annum in the case of a pin-ball game, or similar game or amusement machine, and $50 with respect to so-called slot machines, the operation of which involves an element of chance; and the House recedes.

Amendment No. 148: The House bill provided with respect to the year ending June 30, 1942, that the tax on the operation of a coin-operated game or other amusement or gaming device should not be applicable with respect to operation prior to the effective date of part V of title V of the Revenue Act of 1941. The amendment fixes October 1, 1941, as the date prior to which operation of such device shall not cause tax liability to be incurred. The House recedes.

Amendments Nos. 149 and 150: These amendments reduce the tax on the operation of a bowling alley, billiard table, or pool table from $15 to $10 per annum, and make the date prior to which operation shall not cause tax liability to be incurred October 1, 1941. The House recedes.

Amendment No. 151: This amendment eliminates the tax imposed by the House bill upon every person who engages in business as a lessor of billboards; and the House recedes.

Amendment No. 152: This amendment makes a change in section number; and the House recedes.

Amendments Nos. 153 and 154: The House bill exempted from the tax on the use of boats, boats used exclusively for trade, and so forth. These amendments change "exclusively" to "chiefly" and also exempt boats used by the Sea Scouts Department of the Boy Scouts of America chiefly for training scouts in seamanship. The House recedes.

Amendment No. 155: The House bill authorized the Postmaster General to cooperate with the Commissioner of Internal Revenue in the sale of stamps, stickers, or tags used for payment of the tax on the use of motor vehicles and boats. By the Senate amendment, the Secretary of the Treasury is authorized and directed to advance from time to time to the Postmaster General such sums as the Postmaster General may show shall be required in the performance of such services. The House recedes with an amendment authorizing the appropriation of such sums as may be necessary to enable the Secretary of the Treasury to make the advances to the Postmaster General.

Amendment No. 156: This amendment changes a section number; and the House recedes.

Amendment No. 157: This amendment provides that part V of title V of the bill shall be effective October 1, 1941; and the House recedes.

Amendment No. 158: This amendment provides that the taxes collected with respect to the processing of coconut oil originating in Guam or American Samoa shall be held as separate funds and paid to the Treasuries of these possessions, with a condition that such funds shall not be used to subsidize producers of copra, coconut oil, or allied products in such possessions; and the House recedes.

Amendment No. 159: This amendment eliminates the tax imposed by the House bill with respect to the operation of a radio broadcasting station or engaging in network broadcasting; and the House recedes.

Amendment No. 160: This amendment establishes a committee to investigate nonessential Federal expenditures. The committee is to be composed of (a) three members of the Senate Committee on Finance and three members of the Senate Committee on Appropriations, to be appointed by the President of the Senate; (b) three members of the House Committee on Ways and Means, and three members of the House Committee on Appropriations, to be appointed by the Speaker of the House of Representatives; and (c) the Secretary of the Treasury and the Director of the Bureau of the Budget. It shall be the duty of such committee to make a complete study and investigation of all expenditures of the Federal Government with a view to recommending the elimination or reduction of all such expenditures deemed to be nonessential. The committee shall report to the President and to the Congress the result of its study together with its recommendations at the earliest practicable date. It is given the authority and powers commonly given to similar committees of the Senate and will operate under an appropriation not to exceed $10,000. The House recedes.

Amendment No. 161: This amendment amends section 1303 of the Revenue Act of 1918, as amended, to strike out "President of the Senate" wherever it appears therein and insert in lieu thereof "President pro tempore of the Senate." The House recedes.

Amendment No. 162: This amendment allows further time within which a taxpayer may pay contributions into an unemployment fund under a State law and obtain credit therefor against the Federal unemployment tax for 1936, 1937, 1938, 1939, or 1940. There was no comparable provision in the House bill. In each of the past 3 years a similar provision of law has been enacted. Since this tax has been in effect for more than 5 years, a period in which taxpayers have had ample opportunity to familiarize themselves with the time limitation provided in the permanent law and to take advantage of prior relief legislation, the conferees are in agreement with the statement of the Finance Committee of the Senate that this relief legislation should be the last of its kind to be enacted. The House recedes with a clerical amendment.

Amendment No. 163: This amendment adds a new section which amends the provisions of title II of the Labor-Federal Security Appropriation Act, 1942, relating to the appropriation available to the Social Security Board for grants to States for unemployment compensation administration. The conferees were impressed with the purpose of this amendment, but due to difficulties of working out a suitable provision, action on the merits was deferred with the understanding that it would be considered in a later bill. The Senate recedes.

Amendment No. 164: This amendment adds a new section amending section 401 of the Second Revenue Act of 1940 (relative to the suspension of the Vinson-Trammell Act in the case of contracts or subcontracts not completed before the contractors' or subcontractors' first excess profits tax taxable year) to provide that for the purposes of such section a contract or subcontract shall be deemed to be completed on the date on which final delivery and acceptance of the vessel or other article specified therein is made. The conferees have deferred action on the merits of this amendment with the understanding that it will be considered in a later bill dealing with administrative matters. The Senate recedes.

R. L. Doughton,
Thos. H. Cullen,
Jere Cooper,
John W. Boehne, Jr.,
Allen T. Treadway,
Harold Knutson,
Daniel A. Reed,
Managers on the part of the House.

O

William A. Dean, Jr.	Archibald Stone, Jr.
Robert E. Wheeler	John C. Martin
William W. Stark, Jr.	Charles M. Bertholf
George F. Davis	Charles B. Farwell
Allen W. Moore	John W. Geist
William T. Kinsella	Claude F. Bailey
Clayton S. Clark	

The following-named lieutenants (junior grade) to be lieutenants in the Navy, to rank from the date stated opposite their names:

Thomas H. DuBois, August 1, 1941.
Isaiah M. Hampton, August 1, 1941.
Russell B. Allen, August 1, 1941.
David A. Sooy, August 1, 1941.
James L. P. McCallum, August 1, 1941.
Thomas F. Sharp, August 1, 1941.
Raymond E. Doll, August 1, 1941.
William C. Abhau, August 1, 1941.
Lawrence L. Edge, August 27, 1941.
William F. Petrovic, September 1, 1941.
Ben W. Sarver, Jr., September 1, 1941.
Jesse B. Gay, Jr., September 1, 1941.
Ralph M. Metcalf, September 1, 1941.
John N. Shaffer, September 1, 1941.
David W. Taylor, Jr., September 2, 1941.

The following-named ensigns to be lieutenants (junior grade) in the Navy from the 2d day of June 1941:

John M. Waters	Everett A. Trickey
Robert K. R. Worthington	Roy O. Hale, Jr.
	Richard G. Crommelin
Kenneth S. Brown	James A. Masterson
Harry C. Mason	Thomas R. Ingham
Russell H. Hedgecock	Wendell W. Suydam
Vernon R. Hayes	John E. Wicks, Jr.
Richard H. Bowers	William P. Riesenberg
James A. Marks	Irving J. Superfine
Charles R. Norris, Jr.	Carl B. A. Holmstrom
Donald B. Ramage	Charles E. Pond
Douglas H. Pugh	John T. Eversole
Francis H. Huron	Walter A. Sharer
Cecil R. Welte	Wilmer E. Rawie
Arthur F. Johnson	Cecil V. Johnson
John R. Brown	William J. Tate, Jr.
Jackson H. Raymer	Oscar B. Parker
Leonard E. Harmon	Walter H. Kreamer
William R. Glennon	William K. Ratliff
James R. Payne	Charles M. Robertson
William M. Laughlin, Jr.	William L. Lamberson
	Samuel H. Hunter, Jr.
Robert G. Bidwell	Henry E. Surface
Arthur B. Yeates, Jr.	Robert D. Cox, Jr.
James E. Brenner, Jr.	Vincent M. Sim
Gordon F. Smale	Alvin F. Sbisa
Edwin M. Westbrook, Jr.	James H. Ray
	Robert L. Middleton

Assistant Paymaster Dennison C. Ambrose to be a passed assistant paymaster in the Navy, with the rank of lieutenant, from the 1st day of July 1941.

Chaplain William W. Elder to be a chaplain in the Navy, with the rank of captain, from the 1st day of July 1940.

Gunner Charles E. Conboy to be a chief gunner in the Navy, to rank with but after ensign, from the 1st day of July 1941.

Lt. Comdr. Orville K. O'Daniel to be a lieutenant commander in the Navy from the 1st day of April 1941, to correct the date of rank as previously nominated and confirmed.

The following-named lieutenants to be lieutenants in the Navy, to rank from the date stated opposite their names, to correct the date of rank as previously nominated and confirmed:

Edward F. Jackson, April 1, 1941.
Richard L. Poor, April 1, 1941.
Irvin L. Dew, May 1, 1941.
Francis E. Fleck, July 1, 1941.

The following-named lieutenants (junior grade) to be lieutenants in the Navy, to rank from the date stated opposite their names:

Charles Antoniak, July 1, 1941.
Albert P. Coffin, August 1, 1941.

The following-named ensigns to be lieutenants (junior grade) in the Navy, to rank from the 2d day of June 1941:

Lodwick K. Alford	Cecil A. Bolam
Charles A. Anderson	John L. Erickson
John F. Bauer	Grant S. Heston
Joe L. Bettinger Jr.	Alan J. Holmes
John T. Bland 3d	Curtis W. Howard
Herbert R. Kabat	Clarence A. Melvin
Edgar J. Kemp, Jr.	Albert R. Olsen
William M. Klee	William O. Spears, Jr.
Randolph Klippel	Ernest W. Wood, Jr.

The following-named acting chaplains to be chaplains in the Navy, with the rank of lieutenant, to rank from the 1st day of August 1941:

Roland W. Faulk	Emil F. Redman
Francis J. McManus	Frederick Volbeda

The following-named boatswains to be chief boatswains in the Navy, to rank with but after ensign, from the 1st day of July 1941:

Herbert F. Hugo
William F. Dunham

Asst. Surg. Eugene P. Harris to be a passed assistant surgeon in the Navy, with the rank of lieutenant, to rank from the 1st day of April 1941.

Albert B. Larson to be an assistant dental surgeon in the Navy, with the rank of lieutenant (junior grade), to rank from the 8th day of September 1941.

CONFIRMATIONS

Executive nominations confirmed by the Senate September 15, 1941:

POSTMASTERS

FLORIDA

Mansell A. Orchard, Auburndale.
Walter Edward Clark, Fruitland Park.
Martha J. Metz, North Miami.
Mamie M. Baber, Ormond.

INDIANA

Henry E. White, Franklin.

IOWA

Bernadette M. Presho, Marquette.
Gladys Hadley, New Providence.
Hazel Horning, Richland.

MARYLAND

Elizabeth H. Birch, Crownsville.
Michael J. Sullivan, Ellicott City.

NEBRASKA

Arthur M. Hart, Burchard.
William Earl Goodhard, Elkhorn.
Virginia A. Tuey, Madrid.
Howard W. Botsford, Meadow Grove.

NEW JERSEY

Paul N. Hindenach, Riegelsville.

NEW YORK

Edith A. Wyman, Dover Plains.
Walter Stanhope, Thiells.
Leona M. Carr, Union Springs.
William A. Quigley, Yorktown Heights.

OHIO

John E. Doyle, Youngstown.

SOUTH DAKOTA

Ole Peterson Ronning, Valley Springs.

TEXAS

William Edward Wade, Jayton.

WISCONSIN

Ella W. Weidner, Abrams.
Howard E. Bitney, Clayton.
Thomas A. Lowerre, Delafield.
Erna Bond, Eagle River.
Bertrand E. Sands, Eleva.
Edmund P. Johnson, Rosholt.

HOUSE OF REPRESENTATIVES

MONDAY, SEPTEMBER 15, 1941

The House met at 12 o'clock noon and was called to order by the Speaker, Mr. RAYBURN.

The Chaplain, Rev. James Shera Montgomery, D. D., offered the following prayer:

Out of the depths do we cry unto Thee, O Lord, for our trust is in Thy forgiving love. With ample powers with which Thou hast endowed us, we pray Thee to fit us for a large service in these days so momentous, strong by the sense of Thy strength, wise by the sense of Thy wisdom, and good by the sense of Thy goodness. O God, in a world in which humanity is bleeding and dying and with its burdened heart, wrestling for the daybreak, Thou hast given us a glorious heritage in a land of plenty. As its servants help us to stoop to its burdens and share its hardships. Let our country hear Thy voice crying in the wilderness, from the sea, air, and mountain, quickening our capacities, opening our hearts and minds to carry forward the sacred tenets of our democracy. Wield Thy scepter, Almighty God, saving us from those subversive elements couched in prejudice, egotism, and selfishness; let the guidance of Thy eternal truth never fail us. Suffer not our hearts to languish nor our souls to fear, but undismayed, will we always seek to do our whole duty. Through Jesus Christ our Lord. Amen.

The Journal of the proceedings of Thursday, September 11, 1941, was read and approved.

MESSAGE FROM THE PRESIDENT

A message in writing from the President of the United States was communicated to the House by Mr. Latta, one of his secretaries, who also informed the House that on the following dates the President approved and signed bills of the House of the following titles:

On August 25, 1941:

H. R. 5412. An act making supplemental appropriations for the national defense for the fiscal year ending June 30, 1942, and for other purposes.

On September 2, 1941:

H. R. 5395. An act to amend the National Housing Act, as amended.

MESSAGE FROM THE SENATE

A message from the Senate, by Mr. Frazier, its legislative clerk, announced that the Senate had passed without amendment a joint resolution of the House of the following title:

H. J. Res. 196. Joint resolution authorizing the printing, with illustrations, of the proceedings of various veterans' organizations in the United States as separate House documents.

REVENUE ACT, 1942

Mr. DOUGHTON. Mr. Speaker, I ask unanimous consent to take from the Speaker's table the bill (H. R. 5417) to provide revenue, and for other purposes, with Senate amendments, disagree to the Senate amendments, and agree to the conference asked by the Senate.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from North Carolina? [After a pause.] The Chair hears none, and appoints the following conferees: Mr. DOUGHTON, Mr. CULLEN, Mr. COOPER, Mr. BOEHNE, Mr. TREADWAY, Mr. KNUTSON, and Mr. REED of New York.

CONSTRUCTION OF CERTAIN PUBLIC WORKS IN CONNECTION WITH THE WAR DEPARTMENT IN THE DISTRICT OF COLUMBIA

Mr. MAY. Mr. Speaker, I ask unanimous consent to take from the Speaker's table the bill (H. R. 5146), to amend an

act entitled "An act to authorize the Secretary of War to proceed with the construction of certain public works in connection with the War Department in the District of Columbia," approved June 15, 1938, with Senate amendments, and concur in the Senate amendments.

The Clerk read the title of the bill.

The Clerk read the Senate amendments, as follows:

Page 2, line 3, strike out "purchase" and insert "acquire by purchase, condemnation, or otherwise."

Page 2, line 3, strike out all after "*Provided*," down to and including "begin" in line 6, and insert "That the location and design of such building shall be subject to the approval of the National Capital Park and Planning Commission."

The SPEAKER. Is there objection to the request of the gentleman from Kentucky?

Mr. MARTIN of Massachusetts. Mr. Speaker, reserving the right to object, will the gentleman from Kentucky explain what these Senate amendments are?

Mr. MAY. The House passed a bill authorizing an appropriation for the reconstruction of the Army Medical Library Building here in Washington. Some 2 or 3 years ago the appropriation was authorized, but there was no authority in the original act by which they could acquire the real estate upon which to construct the building. This bill was reported for the purpose of giving that authority. When it went to the Senate we had provided no means of acquiring the property, and the first amendment of the Senate is to authorize the acquisition by purchase, condemnation, or otherwise, of a suitable site. In other words, we failed to provide that they might purchase it and upon failure to purchase they might acquire it by condemnation proceedings.

Then when it came to the question of who should control the location of the building, the Senate inserted the amendment that it should be subject to the approval of the National Capital Park and Planning Commission.

Mr. MARTIN of Massachusetts. Who had supervision under the House bill?

Mr. MAY. The supervision was in the War Department, or rather there was no provision whatever on that subject in the House bill.

Mr. MARTIN of Massachusetts. Why the change?

Mr. MAY. I think that practically all of the public buildings in the District of Columbia are under the jurisdiction of the National Capital Park and Planning Commission, and it has been the practice for more than 10 years that they should be consulted about it, and they work in harmony with the War Department in connection with these matters.

Mr. MARTIN of Massachusetts. Have they had the approval of every other building that has been constructed in the District of Columbia?

Mr. MAY. I am not advised as to whether they have approved the site of all of the buildings, but I think they have in most instances. There might have been something constructed that they were not consulted about, but it is the practice in the War Department and the Navy Department and all of the construction activities of the various departments to confer with the National Capital Park and Planning Commission, as to location of site, and that is in line with this last amendment of the Senate.

Mr. MARTIN of Massachusetts. Has the gentleman's committee approved of the Senate amendments?

Mr. MAY. Those I have talked to have; yes. I have not seen all of the members.

Mr. MARTIN of Massachusetts. How many have you seen?

Mr. MAY. I have seen three, I believe. I have not seen any member on the minority side of the committee.

Mr. MARTIN of Massachusetts. Does not the gentleman think he should have?

Mr. MAY. I would like to have, but I am sure there will be no objection to it, and I am quite confident there will be no objection by any member of the committee.

Mr. MARTIN of Massachusetts. I think that is quite right, but the fact is we ought to protect our rights in these matters.

Mr. MAY. I would like to say to the gentleman——

Mr. MARTIN of Massachusetts. I think I would be obliged to object unless some of the Republican Members have been consulted.

Mr. HOFFMAN. Will the gentleman yield?

Mr. MARTIN of Massachusetts. I yield.

Mr. HOFFMAN. Where do you get the idea that we have anything to say about this Government?

Mr. MARTIN of Massachusetts. I am trying to establish that right here.

Mr. RICH. Mr. Speaker, will the gentleman yield?

Mr. MARTIN of Massachusetts. I yield.

Mr. RICH. Is there anything in this legislation that would permit the Army to go ahead now and proceed with this new building that they are going to build for the Army without the approval of the National Capital Park and Planning Commission?

Mr. MAY. This legislation does not relate at all to that building; it relates merely to the Army Medical Library Building that was constructed 123 years ago and has never been reconstructed. The library in that building is worth about $25,000,000. It is a fire hazard from morning until night, particularly all night. The committee made a unanimous report on the original bill, and I may say to the gentleman from Pennsylvania and to the distinguished minority leader that nobody was more eager to report this bill than the members on the minority side of the committee. They were all very much pleased to have such a bill, and particularly to provide for the protection of this valuable collection.

Mr. MARTIN of Massachusetts. I contend that as a matter of precedent the gentleman should have consulted with the Republican Members before bringing this matter to the floor.

Mr. MAY. If the gentleman wishes, I will withdraw my request at the present time.

Mr. MARTIN of Massachusetts. I think that would be fairer procedure. Then later in the session the gentleman would be in better position to call up the bill.

Mr. MAY. Mr. Speaker, in view of the expressed wishes of my distinguished friend and colleague from Massachusetts, the minority leader, I withdraw my request for the present. I will again call the matter up when some member of the minority on my committee comes into the Chamber.

CONFERENCE REPORT ON TAX BILL

Mr. DOUGHTON. Mr. Speaker, I ask unanimous consent to have until midnight tonight to file a conference report on the tax bill.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

SALE OF LAND BY THE BLACKFEET TRIBE OF INDIANS TO CITY OF CUT BANK, MONT.

Mr. O'CONNOR. Mr. Speaker, I ask unanimous consent to take from the Speaker's desk the bill (H. R. 5261) to authorize the sale of certain Indian lands to the city of Cut Bank, Mont., for immediate consideration. This is a bill that has passed the Senate and has been reported out by the Committee on Indian Affairs.

The Clerk read the title of the bill.

Mr. REED of New York. Mr. Speaker, reserving the right to object, will the gentleman explain the bill?

Mr. O'CONNOR. Certainly. This is a bill to authorize the sale of certain Indian lands to the city of Cut Bank, Mont.—with the consent of the Indian owners—for airport purposes. Some of the lands are already under lease to the city; and I may say to the gentleman from New York that I have already spoken to the minority leader about this bill.

Mr. REED of New York. May I ask one question?

Mr. O'CONNOR. Certainly.

Mr. REED of New York. Does this bill relate at all to the Indians of New York?

Mr. O'CONNOR. No. It is a bill that is limited, as I say, and provides only for the sale by certain Indians of land to the city of Cut Bank, Mont., for airport purposes.

Mr. MARTIN of Massachusetts. Mr. Speaker, reserving the right to object—and I do so just for the purpose of getting information—as I understand this bill is simply to permit the Indians to sell certain land which the city wants for airport purposes, and that it does not concern any other group of Indians or any interest except in that immediate locality.

Mr. O'CONNOR. The gentleman is right; it is a bill that has to do only with the purchase of 680 acres of land for airport purposes. Cut Bank has been established as a port of entry. Construction of the airport is held up pending the authorization to give to the Secretary of the Interior the right to sell allotted lands belonging to Indians if the Indians consent to sell their lands to the city. The bill has already passed the Senate.

guns, and ships have begun to flow from our factories and yards, and the flow will accelerate from day to day, until the stream becomes a river, and the river a torrent, engulfing this totalitarian tyranny which seeks to dominate the world.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE, *September 11, 1941.*

CENSORSHIP OF THE PRESS IN THE WAR DEPARTMENT

Mr. MAY, from the Committee on Military Affairs, submitted an adverse report on House Resolution 300, which is as follows:

Resolved, That the Secretary of War is hereby directed to inform the House of Representatives at the earliest practicable date—

1. If there is in existence a plan by the War Department providing for compulsory censorship of the press and radio concerning activities within the purview of the Department.

2. If there is in existence a report dated on or about April 15, 1941, by the censorship committee of the Joint Army-Navy Board concerning a plan for compulsory censorship of press, magazine, book publishing, radio broadcast, or photographic (including motion picture and still photography) agencies, which would call for the creation of a "director of censorship" and an appropriate staff.

3. Further, if such a report is in existence, what is its context and has it been submitted for consideration by the executive department?

4. Such additional information showing that compulsory censorship is being considered by the War Department, and/or the joint board.

Mr. MAY. Mr. Speaker, the resolution and the report of the War Department are almost identical with the report just considered with respect to the Navy Department, and I therefore move that the resolution be laid on the table.

The motion was agreed to.

A motion to reconsider was laid on the table.

PERMISSION TO ADDRESS THE HOUSE

Mr. KNUTSON. Mr. Speaker, I ask unanimous consent to proceed for 3 minutes.

The SPEAKER. Is there objection to the request of the gentleman from Minnesota?

There was no objection.

Mr. KNUTSON. Mr. Speaker, in the message that has just been read, coming from the White House, the President enumerated the countries that had received assistance under the lend-lease bill, but I failed to hear the name of Russia mentioned and I was wondering whether this was an inadvertence. Surely all the "reds" and "pinks" in this country who were so busy in instigating strikes in defense activities before Comrade Stalin joined the democrats, will want to be assured that he and his fellow humanitarians are not going to be overlooked and that they will have their place at the trough when the next bag of meal is dumped into it, which I understand is to be something like six or seven thousand million dollars. It must be cheering to the American people to know that they have Comrade Stalin and his bloody hands fighting at the side of those who are trying to maintain democracy and Christianity.

[Here the gavel fell.]

EXTENSION OF REMARKS

Mr. McLAUGHLIN. Mr. Speaker, I ask unanimous consent to extend my own remarks in the RECORD and to include therein a speech delivered by myself on Labor Day at the celebration of the Central Labor Union at Omaha, Nebr.

The SPEAKER. Is there objection to the request of the gentleman from Nebraska?

There was no objection.

LEAVE OF ABSENCE

By unanimous consent, leave of absence was granted as follows:

To Mr. SHANLEY, for 3 days.

To Mr. LUTHER A. JOHNSON, for 2 weeks, on account of official business.

ORDER OF BUSINESS

Mr. RICH. Mr. Speaker, when are we going to get the tax bill before the House—or has that been mentioned here today?

The SPEAKER. The Chair is informed the conferees will file a report tonight, and the bill will be taken up tomorrow and disposed of at that time, unless there is a roll call. In case there is a roll call, the House will adjourn, and the roll call will be had on Wednesday.

EXTENSION OF REMARKS

Mr. DISNEY. Mr. Speaker, I ask unanimous consent to extend my own remarks in the RECORD.

The SPEAKER. Is there objection to the request of the gentleman from Oklahoma?

There was no objection.

Mr. GWYNNE. Mr. Speaker, I ask unanimous consent to extend my own remarks in the RECORD and to include therein an editorial from the Waterloo Daily Courier.

The SPEAKER. Is there objection to the request of the gentleman from Iowa?

There was no objection.

Mr. MICHENER. Mr. Speaker, I ask unanimous consent to extend my own remarks in the RECORD.

The SPEAKER. Is there objection to the request of the gentleman from Michigan?

There was no objection.

SENATE BILL AND JOINT RESOLUTION REFERRED

A bill and joint resolution of the Senate of the following titles were taken from the Speaker's table and, under the rule, referred as follows:

S. 1014. An act to amend section 12B of the Federal Reserve Act, as amended; to the Committee on Banking and Currency.

S. J. Res. 104. Joint resolution to provide for the general welfare by investigations into the origins and causes of the disease of encephalitis, and for other purposes; to the Committee on Interstate and Foreign Commerce.

ADJOURNMENT

Mr. COCHRAN. Mr. Speaker, I move that the House do now adjourn.

The motion was agreed to; accordingly (at 12 o'clock and 47 minutes p. m.) the House adjourned until tomorrow, Tuesday, September 16, 1941, at 12 o'clock noon.

COMMITTEE HEARINGS

COMMITTEE ON THE MERCHANT MARINE AND FISHERIES

The Committee on the Merchant Marine and Fisheries will hold public hearings on the following dates at 10 o'clock a. m. to consider the following bills:

Thursday, September 25, 1941:

H. R. 5509, to authorize the Secretary of the Treasury to requisition or purchase motorboats, yachts, and similar vessels for Coast Guard use.

Tuesday, September 30, 1941:

H. R. 5446, to establish a system of unemployment insurance for the maritime industry, and for other purposes.

EXECUTIVE COMMUNICATIONS, ETC.

Under clause 2 of rule XXIV, executive communications were taken from the Speaker's table and referred as follows:

896. A letter from the Acting Secretary of the Treasury, transmitting the draft of a bill for the relief of Roy F. Lassly; to the Committee on Claims.

897. A communication from the President of the United States, transmitting a supplemental estimate of appropriation for the Federal Security Agency, 1942 (H. Doc. No. 372); to the Committee on Appropriations and ordered to be printed.

898. A communication from the President of the United States, transmitting a supplemental estimate of appropriation for the National Mediation Board, fiscal year 1942 (H. Doc. No. 371); to the Committee on Appropriations and ordered to be printed.

REPORTS OF COMMITTEES ON PUBLIC BILLS AND RESOLUTIONS

Under clause 2 of rule XIII, reports of committees were delivered to the Clerk for printing and reference to the proper calendar, as follows:

Mr. DOUGHTON: Committee of conference on the disagreeing votes of the two Houses. H. R. 5417. A bill to provide revenue, and for other purposes (Rept. No. 1203). Referred to the Committee of the Whole House on the state of the Union.

ADVERSE REPORTS

Under clause 2 of rule XIII,

Mr. JACOBSEN: Committee on Naval Affairs. House Resolution 299. Resolution requesting the Navy Department to furnish to the House of Representatives information whether or not censorship of the press exists in this Department (Rept. No. 1201). Laid on the table.

Mr. MAY: Committee on Military Affairs. House Resolution 300. Resolution requesting the War Department to furnish to the House of Representatives information whether or not censorship of the press exists in this Department (Rept. No. 1202). Laid on the table.

PUBLIC BILLS AND RESOLUTIONS

Under clause 3 of rule XXII, public bills and resolutions were introduced and severally referred as follows:

By Mr. BEITER:

H. R. 5638. A bill to amend the Employment Stabilization Act of 1931; to the Committee on Labor.

H. R. 5639. A bill to authorize the Federal Government to contribute funds in the improvement of a section of the New York State

Barge Canal; to the Committee on Rivers and Harbors.

By Mr. CELLER:

H. R. 5640. A bill to decrease the rate of tax imposed by the Federal Unemployment Tax Act; to the Committee on Ways and Means.

By Mr. COLLINS:

H. R. 5641. A bill to provide for the disposal of surplus agricultural commodities; to the Committee on Ways and Means.

By Mr. STEAGALL:

H. R. 5642. A bill to exempt strategic and critical materials from customs duties in certain cases, and for other purposes; to the Committee on Banking and Currency.

By Mr. McGEHEE:

H. R. 5652. A bill to relieve certain employees of the Veterans' Administration from financial liability for certain overpayments and allow such credit therefor as is necessary in the accounts of certain disbursing officers, and for other purposes; to the Committee on Claims.

By Mr. CANNON of Florida:

H. J. Res. 234. Joint resolution providing an amendment to the Constitution relative to the making of treaties; to the Committee on the Judiciary.

PRIVATE BILLS AND RESOLUTIONS

Under clause 1 of rule XXII, private bills and resolutions were introduced and severally referred as follows:

By Mr. COFFEE of Washington:

H. R. 5643. A bill for the relief of the Pacific Art Tile Co.; to the Committee on Claims.

By Mr. O'TOOLE:

H. R. 5644. A bill granting a pension to Mary L. Fitzgerald; to the Committee on Invalid Pensions.

H. R. 5645. A bill for the relief of John Joseph Defeo; to the Committee on Naval Affairs.

By Mr. McGEHEE:

H. R. 5646. A bill for the relief of Joseph Simon, lieutenant commander (S. C.), United States Navy, and R. D. Lewis; to the Committee on Claims.

H. R. 5647. A bill for the relief of John Paul Murray; to the Committee on Claims.

By Mr. WHITE:

H. R. 5648. A bill for the relief of Josip Mrsan; to the Committee on Immigration and Naturalization.

By Mr. FLAHERTY:

H. R. 5649. A bill for the relief of Alice Comas, Robert Comas, and Frances Williams; to the Committee on Claims.

By Mr. PATRICK:

H. R. 5650. A bill for the relief of Fred P. Fulmer; to the Committee on Claims.

By Mr. HOLBROCK:

H. R. 5651. A bill for the relief of the Home Insurance Co. and the American Insurance Co.; to the Committee on Claims.

HOUSE OF REPRESENTATIVES

TUESDAY, SEPTEMBER 16, 1941

The House met at 12 o'clock noon.

The Chaplain, Rev. James Shera Montgomery, D. D., offered the following prayer:

Our gracious Father in heaven and our God, as we wait in the solemnity of these moments, do Thou hear our prayer. Unto Thee do we look at day dawn and find our rest at evening time. Give us to understand that it is not by commonplace thoughts that we perform commonplace duties; it is by high and noble aspirations. Persuade us that the abiding realities of moral and spiritual being are found in a godly life. We praise Thee that Thy merciful providence has guided the fortunes of our Republic; we pray that we may be more useful for work and more profitable for labor, obeying our laws and upholding our Constitution. Do Thou enable us ever to honor our Land for its principles and ideals. Grant, blessed Lord, that our arduous labors and our best endeavors for our present security and future greatness may be fully realized. Oh, let the world's cloud be Thy shadow, and may Thy spirit move on the face of its troubled waters. In our Redeemer's name. Amen.

The Journal of the proceedings of yesterday was read and approved.

MESSAGE FROM THE SENATE

A message from the Senate, by Mr. Frazier, its legislative clerk, announced that the Senate had passed a concurrent resolution of the following title, in which the concurrence of the House is requested:

S. Con. Res. 16. Concurrent resolution authorizing the Committee on Finance of the Senate to have printed additional copies of the hearings held before said committee on the bill (H. R. 5417) entitled "Revenue Act of 1941."

SWEARING IN OF A MEMBER

The SPEAKER laid before the House the following communication, which was read:

SEPTEMBER 16, 1941.

The Honorable the SPEAKER,
House of Representatives.

DEAR SIR: The certificate of election in due form of law of Hon. LAWRENCE H. SMITH as a Representative-elect to the Seventy-seventh Congress, from the First Congressional District of Wisconsin, to fill the vacancy caused by the death of Hon. Stephen Bolles, is on file in this office.

Very truly yours,

SOUTH TRIMBLE,
Clerk of the House of Representatives.

The SPEAKER. The Member-elect will appear at the bar of the House and take the oath of office.

Mr. LAWRENCE H. SMITH appeared at the bar of the House and took the oath of office.

ELECTION TO COMMITTEES

Mr. MARTIN of Massachusetts. Mr. Speaker, I offer the following resolution, which I send to the desk and ask to have read:

The Clerk read as follows (H. Res. 303):

Resolved, That LAWRENCE H. SMITH, of Wisconsin, be, and he is hereby, elected to the following committees of the House of Representatives: District of Columbia, Expenditures in the Executive Departments, and Committee on Invalid Pensions.

The resolution was agreed to.

VETO MESSAGES ON H. R. 5300 (H. DOC. NO. 365) AND H. R. 2431 (H. DOC. NO. 364)

The SPEAKER. The unfinished business is the further consideration of the veto message of the President on the bill H. R. 5300, relating to wheat-marketing quotas under the Agricultural Adjustment Act of 1938, as amended, which was received in the House on August 25.

Without objection, the bill and the message will be referred to the Committee on Agriculture and ordered to be printed.

There was no objection.

The SPEAKER. The unfinished business is the further consideration of the veto message of the President on the bill H. R. 2431, to confer jurisdiction upon the Court of Claims to hear, determine, and render judgment upon the claim of the Carr China Co., which was received in the House on August 25.

Without objection, this bill and message will be referred to the Committee on Claims and ordered to be printed, it being a private bill.

There was no objection.

THE REVENUE BILL OF 1941

Mr. DOUGHTON. Mr. Speaker, I call up the conference report upon the bill (H. R. 5417) to provide revenue, and for other purposes, which I send to the desk, and I ask unanimous consent that the statement be read in lieu of the report.

The Clerk reported the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from North Carolina?

There was no objection.

The Clerk read the statement.

The conference report and statement are as follows:

CONFERENCE REPORT

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 5417) to provide revenue, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendments numbered 39, 41, 49, 54, 56, 63, 64, 65, 79, 91, 93, 94, 111, 117, 119, 120, 121, 125, 126, 128, 130, 131, 132, 134, 135, 136, 144. 163, and 164.

That the House recede from its disagreement to the amendments of the Senate numbered 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 43, 44, 45, 46, 47, 48, 50, 51, 52, 53, 59, 61, 62, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 92, 95, 98, 99, 100, 101, 102, 103, 104, 105, 106, 107 108, 109, 110, 112, 113, 114, 115, 116, 122, 123, 127, 129, 133, 138, 139, 140, 141, 142, 146, 147 148, 149, 150, 151, 152, 153, 154, 156, 157, 158, 159, 160, and 161; and agree to the same.

Amendment numbered 1: That the House recede from its disagreement to the amendment of the Senate numbered 1, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"Table of contents

"Title I—Individual and Corporation Income Taxes

"SEC. 101. Surtax on individuals.

"SEC. 102. Optional tax on individuals with certain gross income of $3,000 or less.

"Sec. 103. Corporation defense tax rates incorporated in rate schedules.

"Sec. 104. Surtax on corporations and termination of defense tax.

"Sec. 105. Tax on nonresident alien individuals.

"Sec. 106. Tax on foreign corporations.

"Sec. 107. Withholding of tax at source.

"Sec. 108. Treaty obligations.

"Sec. 109. Reduction in pursuance of treaties of rates of tax and withholding on nonresident alien individuals resident, in and corporations organized under laws of, Western Hemisphere countries.

"Sec. 110. Defense tax rates on personal holding companies and transfers to avoid income tax incorporated in rate schedules.

"Sec. 111. Personal exemption.

"Sec. 112. Returns of income tax.

"Sec. 113. Credit for dependents.
"Sec. 114. Noninterest-bearing obligations issued at discount.
"Sec. 115. Short-term obligations issued on a discount basis.
"Sec. 116. Information returns with respect to Federal obligations.
"Sec. 117. Extension of time of orders of Securities and Exchange Commission.
"Sec. 118. Taxable years to which amendments applicable.

"Title II—Excess Profits Tax

"Sec. 201. Excess profits tax rates and credits.
"Sec. 202. Deduction of excess-profits tax.
"Sec. 203. New capital.
"Sec. 204. Corporations engaged in mining strategic metals.
"Sec. 205. Taxable years to which amendments applicable.

"Title III—Capital Stock Tax and Declared Value Excess-Profits Tax

"Sec. 301. Capital stock tax.
"Sec. 302. Declares value excess-profits tax—Defense tax rates incorporated in rate schedule.

"Title IV—Estate and Gift Taxes

"Sec. 401. Estate tax rates.
"Sec. 402. Gift tax rates.

"Title V—Excise Taxes

"Part I—1932 excise taxes made permanent

"Sec. 501. 1932 excise taxes made permanent.
"Sec. 502. Pipe line tax.
"Sec. 503. Technical amendment.
"Sec. 504. Bond tax.
"Sec. 505. Conveyance tax.

"Part II—Defense tax rates made permanent (no increase in tax and no change in basis of tax)

"Sec. 521. Defense excise tax rates made permanent which are not increased by this Act.

"Part III—Increases in rates of existing excise taxes

"Sec. 531. Playing cards.
"Sec. 532. Safe deposit boxes.
"Sec. 533. Distilled spirits.
"Sec. 534. Wines.
"Sec. 535. Tires and tubes.
"Sec. 536. Effective date of Part III.

"Part IV—Changes in basis of computing tax (rates increased in certain cases)

"Sec. 541. Admissions tax.
"Sec. 542. Cabaret, roof garden, etc., tax.
"Sec. 543. Club dues.
"Sec. 544. Automobile, truck, bus, and parts tax.
"Sec. 545. Radios, phonographs, records, and musical instruments.
"Sec. 546. Mechanical refrigerators.
"Sec. 547. Matches.
"Sec. 548. Telephone, telegraph, etc.
"Sec. 549. Installment, etc., payments.
"Sec. 550. Effective date of Part IV.

"Part V—New excise taxes

"Sec. 551. New manufacturers' excise taxes.
"Sec. 552. New retailers' excise taxes.
"Sec. 553. Administrative changes in manufacturers' excise tax title of Code.
"Sec. 554. Transportation of persons, etc.
"Sec. 555. Coin-operated amusement and gaming devices.
"Sec. 556. Bowling alleys, etc.
"Sec. 557. Use of motor vehicles and boats.
"Sec. 558. Effective date of Part V.

"Part VI—Processing tax on certain oils.

"Sec. 561. Payment of proceeds of processing tax to Guam and American Samoa.

"Title VI—Nonessential Federal Expenditures

Sec. 601. Nonessential Federal expenditures.

"Title VII—Credit Against Federal Unemployment Taxes

"Sec. 701. Credit against Federal unemployment taxes."

And the Senate agree to the same.

Amendment numbered 40: That the House recede from its disagreement to the amendment of the Senate numbered 40, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"Sec. 117. Extension of time of orders of Securities and Exchange Commission.

"(a) Extension: Section 373 (a) of the Internal Revenue Code (relating to the definition of orders of the Securities and Exchange Commission with respect to which Supplement R applies) is amended to read as follows:

"'(a) The term "order of the Securities and Exchange Commission" means an order (1) issued after May 28, 1938, and prior to January 1, 1943, by the Securities and Exchange Commission to effectuate the provisions of section 11 (b) of the Public Utility Holding Company Act of 1935, 49 Stat. 820 (U. S. C., Supp. V, Title 15, section 79k (b)), or (2) issued by the Commission subsequent to December 31, 1942, in which it is expressly stated that an order of the character specified in clause (1) is amended or supplemented, and (3) which has become final in accordance with law.'

"(b) Effective date of amendment: The amendment made by this section shall be applicable only with respect to taxable years beginning after December 31, 1939."

And the Senate agree to the same.

Amendment numbered 42: That the House recede from its disagreement to the amendment of the Senate numbered 42, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "118"; and the Senate agree to the same.

Amendment numbered 55: That the House recede from its disagreement to the amendment of the Senate numbered 55, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "205"; and the Senate agree to the same.

Amendment numbered 57: That the House recede from its disagreement to the amendment of the Senate numbered 57, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"(c) Returns for 1941: Section 1203 (b) (2) of the Internal Revenue Code (relating to extensions of time for filing capital-stock tax returns) is amended by inserting at the end thereof the following: 'With respect to the year ending June 30, 1941, the extension may be for not more than 90 days.'"

And the Senate agree to the same.

Amendment numbered 58: That the House recede from its disagreement to the amendment of the Senate numbered 58, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "(d)"; and the Senate agree to the same.

Amendment numbered 60: That the House recede from its disagreement to the amendment of the Senate numbered 60, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"Sec. 302. Declared value excess profits tax—defense tax rates incorporated in rate schedule.

"(a) Rates: Section 600 of the Internal Revenue Code (relating to rate of declared value excess profits tax) is amended as follows:

"(1) By striking out the heading '(a) General rule.—';

"(2) By amending the rate schedule to read as follows:

"'6$\frac{9}{10}$ per centum of such portion of its net income for such income-tax taxable year as is in excess of 10 per centum and not in excess of 15 per centum of the adjusted declared value;

"'13$\frac{2}{10}$ per centum of such portion of its net income for such income-tax taxable year as is in excess of 15 per centum of the adjusted declared value.'; and

"(3) By repealing subsection (b) (relating to defense tax for five years).

"(b) Effective date: This section shall be effective only with respect to income-tax taxable years ending after June 30, 1941."

And the Senate agree to the same.

Amendment numbered 80: That the House recede from its disagreement to the amendment of the Senate numbered 80, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "30 cents"; and the Senate agree to the same.

Amendment numbered 96: That the House recede from its disagreement to the amendment of the Senate numbered 96, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"'(1) (A) In the case of each telephone or radio telephone message or conversation which originates within the United States, for which the charge is more than 24 cents, a tax of five cents for each 50 cents, or fraction thereof, of the charge.

"'(B) In the case of each telegraph, cable, or radio dispatch or message which originates within the United States, a tax of 10 per centum of the amount of the charge.

Only one payment of a tax imposed by subparagraph (A) or (B) shall be required notwithstanding the lines or stations of one or more persons are used in the transmission of such dispatch, message, or conversation.

"'(2) (A) A tax equivalent to 10 per centum of the amount paid for leased wire, teletypewriter, or talking circuit special service.

"'(B) A tax equivalent to 5 per centum of the amount paid for any wire and equipment service (including stock quotation and information services, burglar alarm or fire alarm service, and all other similar services, but not including service described in subparagraph (A)).'"

And the Senate agree to the same.

Amendment numbered 97: That the House recede from its disagreement to the amendment of the Senate numbered 97, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "6 per centum"; and the Senate agree to the same.

Amendment numbered 118: That the House recede from its disagreement to the amendment of the Senate numbered 118, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"'(10) Electric light bulbs and tubes: Electric light bulbs and tubes, not including articles taxable under any other provision of this subchapter, 5 per centum."

And the Senate agree to the same.

Amendment numbered 124: That the House recede from its disagreement to the amendment of the Senate numbered 124, and agree to the same with an amendment, as follows: Restore the matter proposed to be stricken out by the Senate amendment and on page 68, line 15, of the House bill before the period insert a comma and the following: "or to a fountain pen if the only parts of the pen which consist of precious metals are essential parts not used for ornamental purposes"; and the Senate agree to the same.

Amendment numbered 137: That the House recede from its disagreement to the amendment of the Senate numbered 137, and agree to the same with an amendment, as

follows: On page 41, line 17, of the Senate engrossed amendments strike out "2408" and insert "2409"; on page 72, line 11, of the House bill strike out "2409" and insert "2410"; and on page 72, line 15, of the House bill strike out "2410" and insert "2411"; and the Senate agree to the same.

Amendment numbered 143: That the House recede from its disagreement to the amendment of the Senate numbered 143, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"(d) Credits, and tax free sales of automobile radios: Section 3442, section 3443 (a) (1), and section 3444 (a) (1) and (2) of the Internal Revenue Code (relating to tax in case of sale of tires to manufacturers of automobiles, etc., and credit on sale) are amended by striking out 'tires or inner tubes,' wherever appearing therein and inserting 'tires, inner tubes, or automobile radios taxable under section 3404'; and by striking out 'tire or inner tube' wherever appearing therein and inserting 'tire, inner tube, or automobile radio taxable under section 3404'. Section 3403 (e) of the Internal Revenue Code, as amended by this Act, is further amended by striking out 'tires and inner tubes' where the phrase appears the first time and inserting 'tires, inner tubes, or automobile radios'; paragraph (1) of subsection (e) of such section is amended by inserting before the semicolon 'or, in the case of automobile radios, if such radios were taxable under section 3404'; paragraph (2) of subsection (e) of such section is amended by striking out 'tires or inner tubes' wherever such phrase appears and inserting 'tires, inner tubes, or automobile radios'."

And the Senate agree to the same.

Amendment numbered 145: That the House recede from its disagreement to the amendment of the Senate numbered 145, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "October 10, 1941"; and the Senate agree to the same.

Amendment numbered 155: That the House recede from its disagreement to the amendment of the Senate numbered 155, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "There are authorized to be appropriated such sums as may be necessary to enable the Secretary of the Treasury to advance from time to time to the Postmaster General such sums as the Postmaster General may show shall be required for the expenses of the Post Office Department in performing in the District of Columbia and elsewhere all services required by this section." And the Senate agree to the same.

Amendment numbered 162: That the House recede from its disagreement to the amendment of the Senate numbered 162, and agree to the same with an amendment, as follows: On page 51, lines 8 and 9 of the Senate engrossed amendments strike out "and miscellaneous amendments"; and the Senate agree to the same.

R. L. DOUGHTON,
THOS. H. CULLEN,
JERE COOPER,
JOHN W. BOEHNE, Jr.,
ALLEN T. TREADWAY,
HAROLD KNUTSON,
DANIEL A. REED,
Managers on the part of the House.

WALTER F. GEORGE,
DAVID I. WALSH,
ALBEN W. BARKLEY,
ARTHUR CAPPER,
JAMES J. DAVIS,
Managers on the part of the Senate.

STATEMENT

The managers on the part of the House at the conference on the disagreeing votes of the two houses on the amendments of the Senate to the bill (H. R. 5417) to provide revenue, and for other purposes, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

Amendment No. 1: This amendment changes the table of contents and the House recedes with an amendment conforming the table of contents to the bill as agreed to in conference.

Amendment No. 2: This amendment integrates the defense tax with the basic surtax rates in the House bill. The lowest surtax bracket rate is therefore 6 percent as compared with 5 percent under the House bill and the highest rate is 77 percent as compared with 75 percent under the existing law and under the House bill. The House recedes.

Amendment No. 3: The Senate amendment adds to the Internal Revenue Code a new supplement, designated Supplement T, to provide for the optional use of a simplified return where the gross income does not exceed $3,000, in order that persons in the lower-income tax brackets, particularly those brought in by the reduction of the personal exemption, may be caused a minimum of difficulty in filling out their returns. There were no comparable provisions in the House bill.

If the taxpayer elects to use this simplified plan, the amount of the tax may be readily ascertained by reference to a table contained in the bill. This simplified return may be used only where the taxpayer's income is derived solely from salaries, wages, compensation for personal services, dividends, interest, rent, annuities, or royalties. If the taxpayer elects to use this method, no deductions or credits against net income are allowed. In lieu of these deductions and credits, the tax provided in the table represents a reduction, with respect to the average taxpayer in the bracket, of 10 percent of the tax that would otherwise be payable without such deductions or credits. This 10-percent reduction has been found to be the effect of the average amount of deductions taken by persons in these brackets. One set of rates is provided for married persons or heads of families and another is provided for single persons (not heads of families). In determining the amount payable, the taxpayer in either case reduces his gross income by $400 for each dependent; then by reference to the appropriate table he ascertains the tax set out opposite the amount so determined.

It should be kept in mind that the use of the simplified return is at the option of the taxpayer and he elects each year whether to use this method or to file under the general provisions. However, once the return for any year has been filed under this method, the election shall be irrevocable, and if the taxpayer files under the general provisions for any year he may not thereafter elect for such year to be taxed under the simplified method. Nonresident alien individuals, estates, or trusts are not allowed to use the simplified method.

The House recedes.

Amendment No. 4: The House bill made permanent the defense tax imposed by section 15 of the Internal Revenue Code as added by section 201 of the Revenue Act of 1940. The Senate amendment integrates the defense tax rates with the rates provided in section 13 (b) (1) and (2) of the code, making the basic rate 24 percent. In the case of corporations having net incomes of $25,000 or less, the rates under existing law (including the defense tax) are graduated as follows: 14.85 percent on normal tax net incomes not in excess of $5,000; 16.5 percent on the portion of such net income in excess of $5,000 and not in excess of $20,000; and 18.7 percent on the excess over $20,000. The Senate amendment integrating the defense tax applicable to such net incomes makes the rates 15, 17 and 19 percent, respectively. Under the Senate amendment the alternative tax applicable to corporations having net incomes slightly in excess of $25,000 is $4,250 plus 37 percent of the normal tax net income in excess of $25,000. Under this provision the full tax rate of 24 percent does not become effective until the normal tax net income of the corporation reaches $38,461.54.

This amendment also integrates the defense tax with the normal taxes on resident foreign corporations and on mutual investment companies, and with the surtax on corporations improperly accumulating surplus.

The House recedes.

Amendments Nos. 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, and 17: Section 102 of the House bill imposed upon all corporations (including insurance companies) except nonresident foreign corporations, and mutual investment companies (the latter being dealt with separately) a surtax of 5 percent upon the first $25,000 of the corporation's surtax net income and 6 percent upon the excess of such income over $25,000. "Corporation surtax net income" was defined as net income minus the credit for dividends received provided in section 26 (b) and thus includes partially tax-exempt interest in the tax base. The section also imposed upon mutual investment companies a surtax upon Supplement Q surtax net income of such companies at rates corresponding to those imposed upon corporations generally.

The Senate amendments retain the surtax but in lieu of the rates provided in the House bill the amendment provides a surtax of 6 percent on the first $25,000 surtax net income and 7 percent on the remainder. Since the credit for interest on partially tax-exempt Government securities is not allowable in computing surtax net income, the Senate amendment also provides that for the purposes of the surtax the dividends received credit shall be limited to 85 percent of the net income rather than 85 percent of the adjusted net income.

These amendments also terminate the defense tax, the defense tax rates being integrated with the basic rates.

The House recedes.

Amendments Nos. 18, 19, 20, 21, 22, 23, 24, 25, 26, and 27: The House bill increased the rates of tax on nonresident alien individuals and foreign corporations and made permanent the defense tax. These amendments retain the increased rates but terminate the defense tax and integrate the 10 percent defense tax with the basic rates. The amendments also reduce from $23,800 to $23,000 the amount of the gross income at which a nonresident alien individual becomes subject to the full normal and surtax rates. The amount of $23,000 represents the approximate point at which, under the provisions of the bill, an effective rate of 27½ percent is reached. The House recedes.

Amendments Nos. 28, 29, and 30: These are changes in section numbers; and the House recedes.

Amendment No. 31: This amendment integrates the defense tax with the basic rates of tax imposed upon personal holding companies and transfers to avoid income tax and terminates the defense tax. The House recedes.

Amendment No. 32: This amendment incorporates a new section amending section 25 (b) (1) of the Code to lower the personal exemption of a married person or the head of a family from $2,000 to $1,500 and the personal exemption of a single person or a married person not living with husband or

wife from $800 to $750. The section also amends section 25 (b) (1) to provide a personal exemption of $750 for a married person whose spouse files a separate return under Supplement T, added by section 102 of the bill. See amendment No. 3.

The section also amends sections 214 and 251 (f) of the Internal Revenue Code to provide in the case of nonresident aliens and citizens entitled to the benefits of section 251 a personal exemption of $750 in lieu of $800 to conform with the changes made in section 25 (b).

The tax bill as reported by the Committee on Ways and Means contained a provision requiring a joint income tax return from a husband and wife living together. This provision was estimated to yield additional revenue of about $300,000,000. It was stricken from the bill by the House.

As reported by the Finance Committee to the Senate, the bill contained a provision taxing a husband and wife in a community property State on exactly the same basis as persons similarly situated in non-community property States. This provision was estimated to yield $46,800,000. It was eliminated by the Senate with the understanding that it would be the subject of hearings and action in the administrative bill.

In view of the action by the House and Senate in this regard, in order to make up this substantial loss in revenue, it is necessary to lower the personal exemption of married persons from $2,000 to $1,500 and of single persons from $800 to $750. This section will produce added revenue of $303,000,000, or approximately the amount lost by the elimination of the joint return provision.

This reduction in the personal exemption will require the filing of 4,930,000 new income tax returns and will increase the number of income tax payers by 2,275,000. Of the 4,930,000 new returns, 4,453,000 will come from married persons and heads of families and 477,000 will come from single persons. Of the 2,275,000 new taxpayers, 1,850,000 will be married persons and 425,000 will be single.

Of the total amount of additional revenue to be secured from lowering the exemptions, approximately $47,000,000 will come from new taxpayers. Of this amount, only $10,000,000 will come from new income tax returns. The balance of this additional revenue, $256,000,000 will be secured from persons taxable under existing law.

The question of the joint return and the treatment of community-property income will be further considered by the Committees on Ways and Means and Finance in connection with the bill dealing with administrative matters.

The House recedes.

Amendment No. 33: This amendment incorporates a new section to amend sections 51 (a), 142 (a), and 147 (a) relating to the requirement for individual and fiduciary returns and information returns in order to conform such requirement with the changes in the personal exemption. The House recedes.

Amendment No. 34: This is a change in section number; and the House recedes.

Amendment No. 35: This is a change in section number; and the House recedes.

Amendment No. 36: This amendment makes a clerical change; and the House recedes.

Amendment No. 37: This amendment provides that the issuing discount on certain short-term Federal, State, and local government obligations issued on a discount basis on or after March 1, 1941, shall not be deemed to accrue until such obligations are paid at maturity, sold, or otherwise disposed of, and that such obligations shall not be treated as capital assets within the meaning of section 117 of the Internal Revenue Code. The principal effect of this amendment is to eliminate the necessity (except in the case of life-insurance companies) for making an allocation between interest and capital gain or loss on the disposition of any such obligation and the necessity for including any portion of the original discount in income for any taxable year other than that in which such obligation is paid at maturity, sold, or otherwise disposed of. Thus, under the amendment a person owning a Treasury bill issued on or after March 1, 1941, would not be required to include any portion of the original discount in income for any taxable year until that in which it is paid at maturity, sold, or otherwise disposed of, and for such year would need only to compare the sales price, or the amount paid at maturity, with the purchase price or other basis, and account for the net gain or loss. This amendment is applicable to taxable years ending after February 28, 1941. The House recedes.

Amendment No. 38: This is a change in section number; and the House recedes.

Amendment No. 39: By this amendment, the Senate adds a new section to the bill, section 117, entitled "Alimony and separate maintenance payments." This section of the bill amended sections 22, 23, and 25 of the Internal Revenue Code and added a new section to Supplement E of chapter 1 of the code in order to treat periodic payments in the nature of or in lieu of alimony or an allowance for support as income to a divorced or legally separated spouse or former spouse actually receiving such payments and to allow the other spouse (or former spouse) to deduct or exclude from his income an amount on account of such payments. The conferees have deferred action on the merits of this amendment with the understanding that it will be considered in a later bill dealing with administrative matters. The Senate recedes.

Amendment No. 40: This amendment extends from January 1, 1941, to January 1, 1943, the time during which an order may be issued by the Securities and Exchange Commission, relating to certain transactions arising out of the simplification or geographical integration of public-utility holding-company systems, under which orders such transactions are treated as tax-free exchanges under Supplement R of the Internal Revenue Code.

The House recedes with a technical amendment.

Amendment No. 41: This amendment amends section 23 (a) (1) of the Internal Revenue Code by inserting after the words "taxable year" the words "in conserving and conducting the business affairs of the taxpayer". The conferees have deferred action on the merits of this amendment with the understanding that it will be considered in a later bill dealing with administrative matters. They were advised by the Treasury Department that wherever possible final decision by the Bureau of Internal Revenue on issues arising under the *Higgins* v. *Smith* decision would be deferred pending such later legislation. The Senate recedes.

Amendment No. 42: This is a change in section number and the House recedes with an amendment making a further change in section number.

Amendment No. 43: This is a technical amendment and the House recedes.

Amendments Nos. 44, 45, 46, and 47: The House bill imposed a special 10-percent excess-profits tax, in certain cases where the invested capital credit is used, upon the excess of the adjusted excess profits net income under the income method over the adjusted excess profits net income under the invested capital method.

These amendments strike from the House bill the provisions relating to this tax. The House recedes.

Amendment No. 48: This is a change in section number; and the House recedes.

Amendment No. 49: This is a technical amendment related to Amendment No. 57. In view of the action on amendment No. 57 the Senate recedes.

Amendment No. 50: This is a change in section number; and the House recedes.

Amendment No. 51: This is a technical amendment designed to make the limitations of section 718 (a) (6) (A) of the Internal Revenue Code, added by section 205 of the House bill, applicable to certain exchanges of the same character as those described in the House bill but which were technically not within such provision because they are governed by Supplement R of the Code rather than section 112 (b) (3), (4) or (5). The House recedes.

Amendment No. 52: This amendment makes a clerical change; and the House recedes.

Amendment No. 53: This amendment has the effect of preventing a distribution of taxable stock dividends out of pre-1941 accumulated earnings and profits from constituting new capital solely because of subsequent operating losses or because of subsequently accumulated but undistributed earnings and profits, and also has the effect of preventing money or property paid in from constituting new capital if such money or property merely takes the place of pre-1941 accumulated earnings and profits previously distributed after the beginning of the first taxable year which begins after December 31, 1940. The House recedes.

Amendment No. 54: This amendment strikes out section 206 of the House bill, which provides that section 731 of the Internal Revenue Code (exempting from excess-profits tax income derived from mining certain metals) shall not apply with respect to any taxable year beginning after December 31, 1940. The Senate recedes.

Amendment No. 55: This is a change in section number and the House recedes with an amendment making a further change in section number.

Amendment No. 56: This is a technical amendment rendered unnecessary by the action taken on Senate amendment No. 57; and the Senate recedes.

Amendment No. 57: This amendment allows corporations subject to the capital-stock tax to make a new declaration of capital-stock value annually and permits the Commissioner to grant an additional extension of 30 days for the filing of capital-stock tax returns for the year ending June 30, 1941. The House recedes with an amendment restoring the existing law with respect to the declaration of capital-stock valuation.

Amendment No. 58: This amendment changed a subsection designation from "(c)" to "(f)". The House recedes with an amendment changing the designation to "(d)".

Amendment No. 59: This is a clerical amendment; and the House recedes.

Amendment No. 60: This amendment integrates the defense tax rate of the declared value excess profits tax with the basic rate, and makes technical changes in connection with amendment No. 57, allowing declaration of capital-stock value annually for capital stock tax purposes. The House recedes with an amendment eliminating the technical changes, rendered unnecessary by the action on Senate amendment No. 57.

Amendments Nos. 61 and 62: The House bill increased the rates applicable to the additional estate tax with respect to decedents dying after the date of enactment of the act, and made permanent the defense tax on net estates imposed by section 951 of the Internal Revenue Code. By reason of the integration of the defense tax and the additional estate tax, these amendments further increase the rates applicable to the additional estate tax,

and repeal section 951 of the Internal Revenue Code, which relates to the defense tax rate. The House recedes.

Amendment No. 63: This is an administrative amendment to the estate tax provisions of the Internal Revenue Code and the Revenue Act of 1926, relating to the deduction from the gross estate of property previously taxed. The conferees have deferred action on the merits of this amendment with the understanding that it will be considered in a later bill dealing with administrative matters. The Senate recedes.

Amendment No. 64: This is an administrative amendment to the estate tax provisions of the Internal Revenue Code, relating to the determination of the deduction for charitable, etc., bequests. The conferees have deferred action with the understanding that it will be considered in a later bill dealing with administrative matters. The Senate recedes.

Amendment No. 65: This amendment makes a change in section number; and the Senate recedes.

Amendments Nos. 66 and 70: The House bill increased the rates for computing the gift tax for the calendar year 1942 and each calendar year thereafter, and made permanent the defense tax imposed for five years by section 1001 (d) of the Internal Revenue Code. By reason of the integration of the defense tax and the gift tax, these amendments further increase the rates for computing the gift tax, and repeal section 1001 (d) of the Internal Revenue Code, which relates to the defense tax rate. The House recedes.

Amendments Nos. 67, 68, and 69: These amendments make clerical changes; and the House recedes.

Amendments Nos. 71, 72, 73, 74 and 76: These amendments eliminate the differential in favor of brandy and subject brandy to the same $4 rate as other distilled spirits. In connection with this change a clerical amendment is made in the heading of section 533 (a) and the floor stocks tax on brandy is made $1.25, the difference between the rate of $2.75 under existing law and the $4 rate under the Senate amendment. The House recedes.

Amendments Nos. 75, 77 and 78: These are clerical amendments dependent upon amendment No. 89, which changes the effective date of part III; and the House recedes.

Amendments Nos. 79, 80, 81, 82 and 83: These amendments increase the House bill rates on still wines from 8, 24 and 50 cents to 10, 35 and 65 cents, respectively; the rate of 4 cents on sparkling wines to 7 cents; and the rate of 2¼ cents on artificially carbonated wines and on liqueurs, cordials, and similar compounds to 3½ cents. The House recedes on amendments Nos. 81, 82 and 83 and recedes on amendment No. 80 with an amendment reducing the 35-cent rate on still wines containing more than 14 percent and not exceeding 21 percent of absolute alcohol to 30 cents. The Senate recedes on amendment No. 79, thereby reverting to the 8-cent rate in the House bill on still wines containing not more than 14 percent of absolute alcohol.

Amendments Nos. 84, 85 and 86: These are clerical amendments dependent upon amendment No. 89, which changes the effective date of part III; and the House recedes.

Amendment No. 87: The House bill imposed a floor stocks tax on tires and tubes held for sale on the effective date of part III of title V of the Revenue Act of 1941. The amendment makes the tax applicable to tires and tubes held on October 1, 1941, the effective date of such part under amendment No. 89; and the House recedes.

Amendment No. 88: The House bill made amendments made by part III of title V applicable with respect to the period beginning with the effective date of this part. The amendment makes the amendments made by part III of title V applicable with respect to the period beginning with October 1, 1941; and the House recedes.

Amendment No. 89: The House bill provided that part III of title V shall take effect on the first day of the first month which begins more than 10 days after the date of the enactment of this act. The amendment makes part III effective October 1, 1941; and the House recedes.

Amendments Nos. 90 and 92: The House bill exempted from admissions tax payments for admission which are less than 10 cents. It also provided that amounts paid for admission by season ticket or subscription should be exempt only if the amount which would be charged to the holder or subscriber for a single admission would be less than 10 cents. These amendments allow the exemption with respect to charges under 10 cents only as to children under 12 years of age and eliminate the provision of the House bill relative to season tickets or subscriptions; and the House recedes.

Amendment No. 91: The House bill exempted children under 12 years of age from the provision that in the case of persons admitted free or at reduced rates an equivalent tax shall be collected based on the price charged to other persons for the same or similar accommodations. The amendment extends the exemption to persons under 18 years of age; and the Senate recedes.

Amendments Nos. 93 and 94: The House bill terminated the exemptions from admissions tax extended by section 1701 of the Internal Revenue Code with respect to, among others, certain religious, educational, or charitable entertainments; agricultural fairs; and certain concerts conducted by certain civic or community membership associations. The amendments restore these exemptions and also exempt admissions to entertainments conducted by public or parochial, elementary or high schools; and the Senate recedes.

Amendment No. 95: This amendment makes the floor stocks tax on matches imposed by the House bill effective on October 1, 1941, the effective date of part IV of title V of the bill under amendment No. 103; and the House recedes.

Amendment No. 96: By section 548 the House bill imposed on telephone, telegraph, cable, and radio dispatches, messages, and conversations for which the charge is more than 24 cents, a tax at the rate of 5 cents for each 50 cents or fraction thereof of the charge. The amendment confines this tax to telephone or radio telephone messages or conversations and imposes in the case of each telegraph, cable, or radio dispatch or message a tax of 10 per centum of the amount of the charge.

Section 548 of the House bill also imposed a tax equivalent to 5 percent of the amount paid for (A) leased wire or talking circuit special service or (B) wire and equipment service (including teletypewriter service, burglar alarm service, news ticker service and stock quotation and information services, and all other similar services). The amendment imposes a 10-percent tax with respect to leased wire, teletypewriter or talking circuit special service and a 5-percent tax with respect to amounts paid for wire and equipment service, but not including burglar or fire alarm service.

The House recedes with an amendment subjecting burglar and fire alarm service to the 5-percent tax.

Amendment No. 97: This amendment increases the tax imposed on the amount paid by subscribers for local telephone service from 5 percent as fixed by the House bill to 10 percent; and the House recedes with an amendment fixing the rate at 6 percent.

Amendments Nos. 98 and 99: The House bill, in certain cases, exempts from the taxes under section 3465 of the Internal Revenue Code, as amended by section 548 of the House bill, any payment received from any person for services or facilities utilized in the collection of news for the public press, or radio broadcasting, or in the dissemination of news through the public press. The amendments also exempt news-ticker services furnishing a general news service similar to that of the public press; and the House recedes.

Amendments Nos. 100, 101, and 102: The House bill provided that in the case of leases, contracts of sale, or conditional sales and deliveries thereunder made before July 1, 1941, payments made subsequent to the effective date of part IV of Title V were to be taxed at the rate in force prior to such effective date. The amendments apply this provision to leases, contracts of sale, and conditional sales and deliveries thereunder made prior to October 1, 1941, the effective date of such part under amendment No. 103. The Houses recedes.

Amendments Nos. 103, 104, 105, 106, 107, and 108: These amendments change the effective dates of certain provisions, the effective date in the case of amendments Nos. 103, 104, and 105, being October 1, 1941, and the effective date in the case of amendment No. 106 being October 5, 1941, and in the case of amendments Nos. 107 and 108, being October 6, 1941; and the House recedes.

Amendment No. 109: This amendment eliminates the taxes on soft drinks, finished or fountain syrups and carbonic acid gas imposed by the House bill; and the House recedes.

Amendment No. 110: This is a change of section number; and the House recedes.

Amendment No. 111: This amendment eliminates the tax imposed by the House bill on artificial lures, baits, and flies; and the Senate recedes.

Amendments Nos. 112, 113, and 114: These amendments make the tax imposed by the House bill on certain electrical appliances applicable also to gas or oil water heaters and gas or oil appliances used for cooking, warming, etc.; and the House recedes.

Amendments Nos. 115 and 116: These amendments delete the names of certain business appliances made taxable by the House bill and provide appropriate descriptions for such appliances not already covered under other designations; and the House recedes.

Amendment No. 117: The House bill taxed only washing machines of the kind used in commercial laundries. The amendment extends the tax to domestic washing machines and other washing machines generally; and the Senate recedes.

Amendment No. 118: This amendment imposes a 10 percent manufacturers' excise tax on electric light bulbs. The House recedes with an amendment excluding articles otherwise taxable, reducing the tax to 5 percent, and making it clear that the tax applies to electric light tubes.

Amendments Nos. 119 and 124: The House bill imposed a tax on jewelry and other enumerated articles sold at retail. Amendment No. 124 deletes this tax but amendment No. 119 substitutes a tax on similar articles sold by the manufacturer, producer, or importer with an exemption of fountain pens if the only part of the pen which consists of precious metals is the point or other essential part not used for ornamental purposes. The Senate recedes on amendment No. 119. The House recedes on amendment No. 124 with an amendment restoring the tax on articles sold at retail, and excepting fountain pens if the only parts of the pen which consist of precious metals are points or other essential parts not used for ornamental purposes.

Amendment No. 120: This amendment eliminates a provision of the House bill that an article subject to jewelry tax shall not be subject to any other tax imposed by section 551 (552 of the House bill); and the Senate recedes.

Amendment No. 121: This amendment is clerical; and the Senate recedes.

Amendment No. 122: This amendment makes the effective date of section 551, October 1, 1941, instead of the first day of the first month which begins more than 10 days after the enactment of the act; and the House recedes.

Amendment No. 123: This is a change in section number; and the House recedes.

Amendments Nos. 125 and 126: These are changes in section numbers; and the Senate recedes.

Amendment No. 127: Under the House bill, toilet preparations used by a barber shop, beauty parlor, or similar establishment, in the treatment of any customer or patron were considered as sold at retail and were subject to tax at 10 percent of their fair retail price, as determined by the Commissioner. Under the amendment, sales of toilet preparations to such establishments are treated as sales at retail. Sales by such establishments are also considered sales at retail under the amendment, but in such a case the tax imposed is credited with the tax paid on the sale to the establishment. The House recedes.

Amendment No. 128: This is a change in section number and the Senate recedes.

Amendment No. 129: This amendment provides certain rules for determining the taxable price of an article subject to retailers' excise tax. It provides that charges for coverings and containers and for placing the article in condition packed ready for shipment shall be included, but excludes the tax itself. There is also excluded, if stated as a separate charge, the amount of any retail sales tax imposed by any State, or Territory, or political subdivision of the foregoing, or the District of Columbia. The House recedes.

Amendments Nos. 130 and 131: These amendments change section numbers; and the Senate recedes.

Amendments Nos. 132 and 133: The House bill provided that the retail excise taxes should not apply to jewelry or furs if the article was the subject of a lease, contract for sale, or conditional sale and delivery was made and part of the consideration was paid before July 1, 1941.

Amendment No. 132 is a technical amendment related to amendments Nos. 124 and 126.

Amendment No. 133 changes "July 1, 1941" to "October 1, 1941." The Senate recedes on amendment No. 132 in conformity with the action on amendments Nos. 124 and 126. The House recedes on amendment No. 133.

Amendments Nos. 134, 135, and 136: These amendments change section numbers; and the Senate recedes.

Amendment No. 137: This amendment prohibits, under penalty, in connection with the sale or lease, or offer for sale or lease, of any article subject to retailers' excise tax, the making of any statement, written or oral, in advertisement or otherwise, intended or calculated to lead any person to believe that the price does not include the tax. The House recedes with a clerical amendment.

Amendments Nos. 138 and 139: These amendments make the retailers' excise taxes effective as of October 1, 1941, and terminate the manufacturers' tax on toilet articles as of the same date; and the House recedes.

Amendment No. 140: This amendment, in clarification of existing language, amends section 3440 of the Internal Revenue Code to provide specifically that a renewal or extension of a lease, or subsequent lease, shall be considered a taxable sale. The House recedes.

Amendment No. 141: This amendment permits liability for a manufacturers' excise tax imposed by the bill to be shifted from the manufacturer to the vendee in any case where, prior to the effective date of part V of title V of the bill (October 1, 1941, under amendment No. 156), any person has made a bona fide contract for the sale after that date of any article with respect to the sale of which a tax is imposed or an existing tax is increased by the bill and such contract does not permit the adding of the tax, unless the contract prohibits such addition. The House recedes.

Amendment No. 142: This amendment provides a refund of the tax on photographic apparatus imposed by section 551 (552 in the House bill) paid on unexposed motion picture films used or resold for use in the making of news reel motion picture films; and the House recedes.

Amendment No. 143: This amendment allows, with respect to automobile radios sold or used in connection with the sale of automobiles and similar articles, a credit similar to that allowed with respect to tires and tubes when so sold or used. The House recedes with a clarifying amendment.

Amendment No. 144: Under this amendment, refund of tax paid on distilled spirits would, under certain limitations therein provided, be allowed at the rate of $1 per proof gallon in the case of distilled spirits used in the manufacture or production of an article intended for use for nonbeverage purposes and sold for such use. The Senate recedes.

Amendment No. 145: This amendment makes the tax on payments for transportation of persons applicable with respect to payments on or after October 1, 1941, instead of the first month which begins more than ten days after the date of the enactment of the act, as provided in the House bill. The House recedes with an amendment changing the date to October 10, 1941.

Amendment No. 146: This amendment, in certain cases, exempts from transportation tax payments for transportation of military or naval personnel; and the House recedes.

Amendment No. 147: The House bill imposed an occupational tax of $25 per annum with respect to the operation of a pinball game, a slot machine, or similar amusement or gaming device. The amendment establishes two different rates of tax; $10 per annum in the case of a pinball game, or similar game or amusement machine, and $50 with respect to so-called slot machines, the operation of which involves an element of chance; and the House recedes.

Amendment No. 148: The House bill provided with respect to the year ending June 30, 1942, that the tax on the operation of a coin-operated game or other amusement or gaming device should not be applicable with respect to operation prior to the effective date of part V of title V of the Revenue Act of 1941. The amendment fixes October 1, 1941, as the date prior to which operation of such device shall not cause tax liability to be incurred. The House recedes.

Amendments Nos. 149 and 150: These amendments reduce the tax on the operation of a bowling alley, billiard table, or pool table from $15 to $10 per annum, and make the date prior to which operation shall not cause tax liability to be incurred October 1, 1941. The House recedes.

Amendment No. 151: This amendment eliminates the tax imposed by the House bill upon every person who engages in business as a lessor of billboards; and the House recedes.

Amendment No. 152: This amendment makes a change in section number; and the House recedes.

Amendments Nos. 153 and 154: The House bill exempted from the tax on the use of boats, boats used exclusively for trade, and so forth. These amendments change "exclusively" to "chiefly" and also exempt boats used by the Sea Scouts Department of the Boy Scouts of America chiefly for training scouts in seamanship. The House recedes.

Amendment No. 155: The House bill authorized the Postmaster General to cooperate with the Commissioner of Internal Revenue in the sale of stamps, stickers, or tags used for payment of the tax on the use of motor vehicles and boats. By the Senate amendment, the Secretary of the Treasury is authorized and directed to advance from time to time to the Postmaster General such sums as the Postmaster General may show shall be required in the performance of such services. The House recedes with an amendment authorizing the appropriation of such sums as may be necessary to enable the Secretary of the Treasury to make the advances to the Postmaster General.

Amendment No. 156: This amendment changes a section number; and the House recedes.

Amendment No. 157: This amendment provides that part V of title V of the bill shall be effective October 1, 1941; and the House recedes.

Amendment No. 158: This amendment provides that the taxes collected with respect to the processing of coconut oil originating in Guam or American Samoa shall be held as separate funds and paid to the Treasuries of these possessions, with a condition that such funds shall not be used to subsidize producers of copra, coconut oil, or allied products in such possessions; and the House recedes.

Amendment No. 159: This amendment eliminates the tax imposed by the House bill with respect to the operation of a radio broadcasting station or engaging in network broadcasting; and the House recedes.

Amendment No. 160: This amendment establishes a committee to investigate nonessential Federal expenditures. The committee is to be composed of (a) three members of the Senate Committee on Finance and three members of the Senate Committee on Appropriations, to be appointed by the President of the Senate; (b) three members of the House Committee on Ways and Means, and three members of the House Committee on Appropriations, to be appointed by the Speaker of the House of Representatives; and (c) the Secretary of the Treasury and the Director of the Bureau of the Budget. It shall be the duty of such committee to make a complete study and investigation of all expenditures of the Federal Government with a view to recommending the elimination or reduction of all such expenditures deemed to be nonessential. The committee shall report to the President and to the Congress the result of its study together with its recommendations at the earliest practicable date. It is given the authority and powers commonly given to similar committees of the Senate and will operate under an appropriation not to exceed $10,000. The House recedes.

Amendment No. 161: This amendment amends section 1303 of the Revenue Act of 1918, as amended, to strike out "President of the Senate" wherever it appears therein and insert in lieu thereof "President pro tempore of the Senate." The House recedes.

Amendment No. 162: This amendment allows further time within which a taxpayer may pay contributions into an unemployment fund under a State law and obtain credit therefor against the Federal unemployment tax for 1936, 1937, 1938, 1939, or 1940. There was no comparable provision in the House bill. In each of the past 3 years a similar provision of law has been enacted. Since this tax has been in effect for more than 5 years, a period in which taxpayers have had ample opportunity to familiarize themselves with the time limitation provided in the permanent law and to take advantage of prior relief legislation, the conferees are in agreement with the statement of the Finance Committee of the Senate that this relief legislation should be the last of its kind to be enacted. The House recedes with a clerical amendment.

Amendment No. 163: This amendment adds a new section which amends the provisions of title II of the Labor-Federal Security Appropriation Act, 1942, relating to the appropriation available to the Social Security Board

for grants to States for unemployment compensation administration. The conferees were impressed with the purpose of this amendment, but due to difficulties of working out a suitable provision, action on the merits was deferred with the understanding that it would be considered in a later bill. The Senate recedes.

Amendment No. 164: This amendment adds a new section amending section 401 of the Second Revenue Act of 1940 (relative to the suspension of the Vinson-Trammell Act in the case of contracts or subcontracts not completed before the contractors' or subcontractors' first excess profits tax taxable year) to provide that for the purposes of such section a contract or subcontract shall be deemed to be completed on the date on which final delivery and acceptance of the vessel or other article specified therein is made. The conferees have deferred action on the merits of this amendment with the understanding that it will be considered in a later bill dealing with administrative matters. The Senate recedes.

R. L. DOUGHTON,
THOS. H. CULLEN,
JERE COOPER,
JOHN W. BOEHNE, Jr.,
ALLEN T. TREADWAY,
HAROLD KNUTSON,
DANIEL A. REED,
Managers on the part of the House.

The SPEAKER. The gentleman from North Carolina is recognized for 1 hour.

Mr. DOUGHTON. Mr. Speaker, I yield myself 10 minutes.

Mr. Speaker, I do not know that a statement by the chairman of the Committee on Ways and Means, is altogether necessary after the reading of the statement of the conferees by the Clerk. Members of the House are familiar with the bill as it passed the House. You have listened to the reading of the statement in lieu of the report, and especially I presume Members have read the report, which I endeavored to place in the office of each Member of the House this morning. I have prepared a brief statement to present to the House and after that, if there are any questions in the minds of Members, some of us will endeavor to enlighten the House concerning them.

Mr. DUNCAN. Mr. Speaker, will the gentleman yield?

Mr. DOUGHTON. Yes.

Mr. DUNCAN. I wanted to ask about amendments numbered 119 and 124, which impose a jewelry tax. Of course, as the bill is before us it does not contain a full draft of the law. I wanted to ask particularly about safety razors. The Gillette safety razor, for example, sells for about 20 cents. It is sold, together with five blades, for 49 cents. It has 2 cents worth of gold, not for ornamental purposes, but purely for purposes of utility. The manufacturers of these commodities are unable to obtain nickel, and for the purpose of preventing rust it is necessary to use this thin coating of gold. I am wondering whether or not, in the draft of the bill as we get it, this particular commodity will be assessed as jewelry.

Mr. DOUGHTON. I will say to my distinguished friend, an able member of the Committee on Ways and Means, that I do not know that I would be able to give him any fuller information than is contained in the language of the bill.

Mr. DUNCAN. In this amendment you have exempted fountain pens where the precious metal that is used is an essential part.

Mr. DOUGHTON. There was no language in the House bill that dealt exclusively or especially with fountain pens but an exemption was written into the Senate bill, and carried into the conference agreement.

Mr. DUNCAN. Well, it is in the amendment. They are excluded.

Mr. DOUGHTON. I think any statement which the distinguished gentleman would make would carry a great deal of weight with the Treasury Department.

Mr. DUNCAN. It seems to me that in an item of this kind, which is essentially not jewelry and it is absolutely necessary in order to preserve the metal, to place 2 cents worth of gold on it, should not bring the commodity within the provisions of the act.

Mr. DOUGHTON. The gentleman refers to safety razors?

Mr. DUNCAN. This is a sort of general discussion.

Mr. DOUGHTON. Where they are just dipped in gold for the purpose of preventing corrosion, I understand that they would be exempt. If they are heavily plated with gold, however, they should be taxable the same as any other gold article.

Mr. JENKINS of Ohio. Mr. Speaker, will the gentleman yield to me?

Mr. DOUGHTON. I yield to the gentleman from Ohio.

Mr. JENKINS of Ohio. In view of the fact that you have already brought up the matter of jewelry, is not this the fact from this conference report and all this talk about amendments in the Senate with reference to jewelry, that they all go out of the window, and we go back to the bill as passed by the House?

Mr. DOUGHTON. Absolutely, except for the special exemption as to fountain pens, to which the gentleman from Missouri [Mr. DUNCAN] has referred.

Mr. JENKINS of Ohio. That is the section on page 98.

Mr. DOUGHTON. The Senate receded on the jewelry provision, except as to fountain pens.

Mr. JENKINS of Ohio. Will the gentleman tell me just what it does do with reference to fountain pens? As I understand it, it does not include any fountain pen unless it is one that has been decorated with silver or some precious metal, or something like that.

Mr. DOUGHTON. I understand that to be correct. Fountain pens are exempt if the only parts of the pen which consist of precious metals are points or other essential parts not used for ornamental purposes.

Mr. REED of New York. Will the gentleman yield?

Mr. DOUGHTON. I yield.

Mr. REED of New York. What this exempts from taxation is the gold point of the pen, which is essential, and the band that goes around the pen to keep it from splitting, which is an essential part of the pen.

Mr. JENKINS of Ohio. Will the gentleman yield for another question?

Mr. DOUGHTON. I yield.

Mr. JENKINS of Ohio. As I understand it, the tax on jewelry will be a 10-percent tax on all jewelry articles in a jewelry store.

Mr. DOUGHTON. All articles sold at retail.

Mr. JENKINS of Ohio. In that respect, that is about the only case in this bill where we have a direct retail tax; is that right?

Mr. COOPER. There are two more.

Mr. JENKINS of Ohio. What other items?

Mr. COOPER. Furs and cosmetics.

Mr. JENKINS of Ohio. In that respect the bill is distinctive, in that it does lay a direct retail tax on all jewelry in all jewelry stores and also in drug stores which sell jewelry and all of the big department stores which sell jewelry.

Mr. DOUGHTON. A retail sales tax; 10 percent on jewelry. Of course, the Senate increased it to 15 percent and made it a manufacturers' sales tax, with a 15 percent floor-stock tax, but the Senate conferees receded on that.

Mr. DONDERO. Mr. Speaker, will the gentleman yield?

Mr. DOUGHTON. I yield.

Mr. DONDERO. On pages 10 and 11 of the report reference is made to joint returns and community property, and states that the Ways and Means Committee will deal with that subject in an administrative bill.

Mr. DOUGHTON. Yes.

Mr. DONDERO. I think the House would like to know just what is meant by that statement at the top of page 11 of the report.

Mr. DOUGHTON. I think what is meant by that is this: It will be remembered that when the joint return was voted out in the House, one of the main reasons assigned by those opposing joint returns was that hearings had not been had and that the House did not have sufficient information to deal with the subject of joint returns. That being the case, it was inferred that when the new tax bill comes up, a question as important as this would receive full consideration and proper hearings would be conducted.

Mr. FITZPATRICK. If we had passed the bill as recommended by the Ways and Means Committee containing the provision requiring joint returns we would not have had to reduce the exemption to $1,500 on married people.

Mr. DOUGHTON. That is the view we took on it. I went into that fully in my statement at the time we considered the bill originally.

Mr. FITZPATRICK. The committee recommended compulsory joint returns, but the House knocked it out, and for that reason we are now compelled to reduce the exemption to $1,500 on married people and $750 on single people.

Mr. DOUGHTON. The gentleman is absolutely correct. But the House and the Senate both acted after due warning. The amount had to be restored in some form, and it was restored in the Senate by broadening the base. The matter will be solved in some way, and possibly in a way which will be more objectionable than the joint-return provisions of the House bill.

Mr. RICH. Mr. Speaker, will the gentleman yield?

Mr. DOUGHTON. I yield.

Mr. RICH. I note that under the operation of the provisions of amendment No. 32, which reduces the exemption for married people from $2,000 to $1,500 and for single people from $800 to $750, that it is expected 4,930,000 additional returns will be made and that the increased revenue expected to be received from these sources will be $47,000,000.

Mr. DOUGHTON. From new taxpayers.

Mr. COOPER. Mr. Speaker, will the gentleman yield?

The SPEAKER. The gentleman from North Carolina has consumed 10 minutes.

Mr. DOUGHTON. Mr. Speaker, I yield myself 15 additional minutes.

Mr. RICH. How many new returns will there be, and what will be the cost to the Government of supervising these returns?

Mr. DOUGHTON. I yield to the gentleman from Tennessee.

Mr. COOPER. I think it should be made clear that by reducing the exemptions from $2,000 to $1,500 for married people and from $800 to $750 for single people the Treasury Department estimates that additional revenue of $303,700,000 will be received. Of this amount, there will be received from new taxpayers $47,300,000. There will be received from present taxpayers, who will be required to pay more, the sum of $256,400,000.

Of the $303,700,000, it is estimated that married people will pay $283,200,000 additional in taxes, and single people $20,600,000.

Mr. RICH. The point I would like to make is that it will cost a great deal of money to check and supervise these additional tax returns. The gentleman states it is expected $47,000,000 additional will be received from new taxpayers because of the broadening of the base. I ask the gentleman from Tennessee what it will cost the Federal Government to collect this $47,000,000?

Mr. COOPER. The estimate received by us is that it costs about 50 cents a return.

Mr. RICH. Fifty cents a return. There are going to be more than 2,000,000 new returns.

Mr. COOPER. It costs about 50 cents to receive and handle each non-taxpayer return that is filed.

Mr. RICH. The Treasury Department has men running around over the country examining these returns. Certainly the cost of these men is not included in the cost of examination just referred to by the gentleman.

Mr. COOPER. And, if the gentleman will permit, the estimate given your committee is that for taxable returns filed it costs about $1.50 to receive and handle them.

Mr. KNUTSON. Mr. Speaker, will the gentleman yield?

Mr. DOUGHTON. I yield.

Mr. KNUTSON. In line with the gentleman's question, it probably would be appropriate at this time to call attention to the fact that we have adopted a simplified return for these nontaxpayers, a return on which they will have to answer only four questions.

Mr. COOPER. Yes; I was in the act of calling the gentleman's attention to amendment No. 3, appearing on page 8 of the bill, which provides for optional tax on individuals with incomes of $3,000 or less. This is a very much simplified form that the people coming under this classification will be allowed to make out and file, and it will greatly reduce the cost of collection and administration.

Mr. RICH. I understand that the reason for the reduction in these exemptions was because we failed to adopt the compulsory joint-return feature, which is beneficial to people in eight community-property States, because we were not permitted to make the people in these community-property States pay what they should pay and what others in like circumstances have to pay in other States. That was wrong. You should never have permitted those fellows to escape. This administrative bill should have teeth in it, so that the people in those eight community-property States shall pay the same as every man and woman in all the other States have to pay. Until this defect is corrected we shall not have just legislation.

Mr. DOUGHTON. That is a matter the Congress will have to correct, not the Treasury Department or the administration.

Mr. KNUTSON. Mr. Speaker, will the gentleman yield?

Mr. DOUGHTON. I yield.

Mr. KNUTSON. Answering the gentleman from Pennsylvania, I may say that the committee reported the bill with the compulsory joint return, but on a roll call the House struck out that provision, and in so doing took over $300,000,000 out of the bill.

Mr. RICH. The gentleman knows I did not vote to do that.

Mr. KNUTSON. I understand, but do not blame the Ways and Means Committee. The House itself took that action, and in taking that action compelled us to go back and find new sources of income, and we had to broaden the base to bring in $303,000,000.

Mr. RICH. The Senate had such an amendment under consideration. Why did you not stick by the Senate amendment?

Mr. DOUGHTON. The bill as reported to the Senate by the Finance Committee contained an amendment treating married persons in the community-property States the same as persons similarly situated in the other States. The Senate leaders, however, did not insist on it, and it was stricken from the bill and was not in the bill as it passed the Senate. This action was taken with the understanding that the entire matter would be taken up later.

Mr. RICH. Will the gentleman yield further?

Mr. DOUGHTON. In one minute. A decided majority of the Senate Finance Committee favored the community-property tax provision, but when it got on the floor of the Senate, in order to avoid a fight and a long delay they agreed to let it go over, with the understanding that it would be the subject of hearings and action in the administrative bill.

Mr. RICH. In other words, then, the Senate was afraid of these eight community-property States, and it backed down because it did not have the nerve to get up and fight for what was right.

Mr. COCHRAN. Will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from Missouri.

Mr. COCHRAN. The gentleman from Pennsylvania is talking about community-property States only. The House considered a provision in reference to joint returns that applied not only to community-property States but to the taxpayers of the country as a whole. As fair a provision as ever appeared in a revenue bill.

Mr. DOUGHTON. That is correct.

Mr. COCHRAN. The citizens of the community-property States are minor in comparison with the entire country. The money lost all over the United States on account of the action of the House was estimated at $329,000,000, affecting less than 5 percent of all taxpayers. It may be said now that Members of the House Ways and Means Committee, as well as many other Members, including myself, predicted when that matter was under consideration that if the House struck out the joint-return provision we would be required to lower the exemption and to increase the excise taxes, which is just exactly what has happened. Those who voted to strike out the provision referred to blame themselves now for what has happened.

Mr. DOUGHTON. I never like to say, "I told you so"; but if you will read my statement on this question of joint returns when the bill was originally before us, you will see that I emphasized the fact that if the joint-return provision were stricken from the bill we would be short some $300,000,000. We had to raise $3,500,000,000 as a total; and if we lost this $300,000,000, it would have to be made up by increased individual taxes or excise taxes, perhaps both. The general belief was that in broadening the base we would get a large amount of additional revenue; however, by broadening the base we only get $47,000,000 from new taxpayers. The other $256,000,000 will come from present taxpayers whom we thought we had taxed high enough. So those who opposed joint returns have brought this situation upon themselves and the tapayers of the country. They have brought upon us the necessity of increasing the individual income taxes to the extent of $300,000,000.

Mr. COCHRAN. And in doing that you are affecting 100 percent of the taxpayers of the country; and in knocking out the joint return you only benefit less than 5 percent of the people of this country who make joint returns and thus escape their fair share of taxation.

Mr. COOPER. Will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from Tennessee.

Mr. COOPER. I think this ought to be clarified to the extent of saying that the so-called community-property amendment was estimated to yield $50,000,000.

Mr. COCHRAN. The joint return is the big matter.

Mr. COOPER. The so-called mandatory joint provision was estimated to yield $350,000,000.

Mr. COCHRAN. Three hundred and twenty-nine million dollars, according to statements made at the time it was considered.

Mr. COOPER. It should be remembered that there is a substantial difference in revenue as between the two proposals.

Mr. SUMNERS of Texas. Will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from Texas.

Mr. SUMNERS of Texas. As I understand, this community-property matter is not involved in the bill that the gentleman is explaining to the House?

Mr. DOUGHTON. That is correct.

Mr. SUMNERS of Texas. It is not in the conference report?

Mr. DOUGHTON. It is referred to in the conference report.

Mr. SUMNERS of Texas. But it is not involved in this bill?

Mr. DOUGHTON. That is correct. It was not in conference.

Mr. SUMNERS of Texas. It was not in conference at all.

Mr. DOUGHTON. It was explained that the Senate was confronted with the possibility of prolonged debate. The Senate was anxious to avoid delay and it was anxious to get this law on the statute books. It was urged over there that there had not been public hearings on the subject. However, I may say a large majority of the Senate Finance Committee did favor the community-property provision.

Mr. COOPER. Will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from Tennessee.

Mr. COOPER. In order to further clarify the situation, it should be stated that the Senate Finance Committee included the so-called community-property amendment. When the bill reached the floor of the Senate that amendment was eliminated from the bill by the Senate itself.

Mr. SUMNERS of Texas. Yes. Of course, the Ways and Means Committee of the House reported in favor of a joint return. I do not impugn anybody's motive, and I want that made clear, but it does not seem to me quite fair for the committee and the opponents of what happened to undertake now to inject that issue into this report when those of us who do not agree with the statements that they have made will have no opportunity to debate this matter on the floor of the House. I hope the country will understand that when this matter is presented again we will have some views of our own to express.

Mr. DOUGHTON. There is no doubt but what the gentleman from Texas and others who feel as he does will have the opportunity, and will not be derelict in presenting the views they have.

Mr. SUMNERS of Texas. This is not the time and this is not the place, if I may say so, to consider the question of joint returns.

Mr. DOUGHTON. But some explanation must be given here and some explanation must be given to the country as to the reason why the exemptions were lowered and the base broadened, and these additional taxes put upon taxpayers whom we thought we had taxed enough.

Mr. REED of New York. Mr. Speaker, will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from New York.

Mr. REED of New York. Mr. Speaker, I ask unanimous consent to insert at this point in the RECORD a table prepared by the Treasury Department showing the effect of this bill on the various items appearing in the bill.

The SPEAKER. Is there objection to the request of the gentleman from New York?

There was no objection.

The table referred to follows:

Estimated revenue effect[1] of the revenue bill of 1941 (H. R. 5417) as agreed upon in conference Sept. 11, 1941

[In millions of dollars]

	Estimated increase (+) or decrease (−) over yield of—		Estimated increase or decrease (−) over yield of present law
	House bill	Senate bill	
Income taxes:			
Corporation:			
Normal tax	+26.8	+7.8	−493.3
Surtax	+118.4	−2.1	763.1
Excess-profits tax	−86.0	−18.3	1,112.3
Total corporation income taxes	+59.2	−12.6	1,382.1
Individual	+279.8	−4.1	1,144.6
Total income taxes	+339.0	−16.7	2,526.7
Miscellaneous internal revenue:			
Capital stock tax	0	+38.4	22.3
Estate tax	+5.7	0	141.6
Gift tax	0	0	16.0
Total	+5.7	+38.4	179.9
Manufacturers' and retailers' excise taxes:			
Distilled spirits	+.7	+5.0	[2] 123.0
Wines	+5.4	−4.0	[2] 10.4
Passenger automobiles, parts, and accessories	0	0	72.2
Automobile trucks, busses, and trailers	0	0	16.1
Tires and tubes	0	0	[2] 44.6
Refrigerators, refrigerating apparatus, and air-conditioners	0	0	16.6
Matches	0	0	[2] 8.2
Playing cards	0	0	1.0
Radio receiving sets and parts	0	0	9.4
Phonographs and phonograph records	0	0	4.5
Musical instruments	0	0	3.6
Sporting goods	0	+.3	8.5
Luggage	0	0	4.5
Electric, gas, and oil appliances	+19.2	0	31.8
Photographic apparatus	−.1	0	9.9
Electric signs	0	0	2.7
Business and store machines	0	0	13.0
Rubber articles	0	0	21.3
Washing machines	0	−5.3	.4
Optical equipment	0	0	.3
Soft drinks	−22.6	0	0
Electric-light bulbs	+4.0	−4.0	4.0
Jewelry, etc	−3.5	+16.6	52.7
Furs	0	0	20.7
Toilet preparations	0	0	19.7
Total manufacturers' and retailers' excise taxes	+3.1	+8.6	499.1
Miscellaneous taxes:			
Admissions	+2.4	+16.2	62.4
Cabarets, roof gardens, etc	0	0	2.0
Club dues	0	0	2.8
Safe-deposit boxes	0	0	1.7
Telephone, telegraph, radio and cable facilities, leased wires, etc	−1.7	+.6	24.9
Telephone bill	+8.7	−34.9	52.3
Transportation of persons	−1.0	0	35.5
Use of motor vehicles and boats	0	0	160.2
Bowling alleys and billiard and pool tables	−.7	0	1.3
Coin-operated amusement and gaming devices	−4.3	0	4.6
Radio broadcasting	−12.5	0	0
Outdoor advertising	−1.7	0	0
Total miscellaneous taxes	−10.8	−18.1	347.7
Total excise and miscellaneous taxes	−7.7	−9.5	846.8
Total miscellaneous internal revenue	−2.0	+28.9	1,026.7
Total	+337.0	+12.2	3,553.4

Treasury Department, Division of Research and Statistics, Sept. 11, 1941.

[1] Tentative. All estimates show full year effect. Estimates for corporation and individual income taxes and the gift tax are based on levels of income estimated for calendar year 1941; all other estimates are based on income levels estimated for fiscal year 1942.

[2] Excluding nonrecurring floor-stocks taxes—distilled spirits, $38,000,000; wines, $2,100,000; tires and tubes, $6,7000,000; matches, $700,000.

Mr. CROWTHER. Mr. Speaker, will the gentleman yield?

Mr. DOUGHTON. I yield to the gentleman from New York.

Mr. CROWTHER. In connection with a question asked by the gentleman from Pennsylvania, when we reduced the exemptions in the 1940 act to $2,000 and $800, the Treasury Department informed us that they were necessarily compelled to employ 3,900 new employees. Have they given the gentleman any figure as to how many more employees they will have to have in connection with this new lowering of the exemption?

Mr. DOUGHTON. No; the chairman of the committee has not been given any definite information on that subject. I doubt if they know definitely just how many new employees will be required. No doubt quite a number will be required, and it will be quite an expense to the Government and to the taxpayers. However, the simplified return will alleviate that difficulty to some extent.

Mr. CROWTHER. Somewhat, but they still will probably have to hire some new employees?

Mr. DOUGHTON. Undoubtedly.

Mr. CROWTHER. You still have in the bill the use tax of $5 on automobiles?

Mr. DOUGHTON. We have.

Mr. CROWTHER. Yes; it is still in the bill.

Mr. DOUGHTON. That was not in conference. The Senate accepted the House provision.

Mr. CROWTHER. The letter from the Internal Revenue Commissioner informed us that he would need 3,800 new employees to enforce that provision.

Mr. DOUGHTON. I believe that figure is a little high, because I do not believe he favored it, and I think he set his figure a little high on that account. But,

of course, his judgment would be better than mine.

Mr. CROWTHER. Some of these sections are turning themselves into employment agencies, it would seem to me.

Now may I ask another question:

I want to know if anything has been done as regards future consideration of radio broadcasting as such connected with advertising, or with advertising separately. There is a business that would be making from 33 to 45 percent on invested capital if they absorbed all the tax that was laid on them in our bill, but still they are going scot free. Are you going to reconsider that in connection with some of these other things?

Mr. DOUGHTON. The gentleman is a member of the Committee on Ways and Means, and he will have just as many votes on that subject as the chairman of the committee. I have no doubt that that question will be considered.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Speaker, I yield myself 10 additional minutes.

A glance at page 1 of the conference report on the tax bill will show that, as usual, the amendments on which the House conferees receded are much greater in number than those on which the Senate conferees receded. This is almost always true, particularly in the case of revenue bills, since the technical and clerical amendments necessary to any rearrangement of the substantive provisions are mostly made by the Senate. However, it is clear that, on the whole, the provisions of the House bill have prevailed.

In this connection Senator GEORGE, the able and efficient chairman of the Senate Committee on Finance, in presenting the Finance Committee bill to the Senate, made the following comment:

> First, I desire to congratulate the Ways and Means Committee of the House under the able leadership of Representative DOUGHTON, its chairman, and the House itself, upon the conscientious consideration given to this tax measure. While the Senate Finance Committee has added some amendments to the bill as it passed the House, the bill in its main features stands as the work of the Ways and Means Committee of the House.

The bill as reported to the House by the Committee on Ways and Means was estimated to yield three billion five hundred and twenty-nine million. Action by the House with respect to the joint return reduced this estimated yield to three billion two hundred and sixteen million. The bill as reported to the Senate by the Committee on Finance was estimated to produce three billion six hundred and eighty million, and, as passed by the Senate, three billion five hundred and forty-one million. Under the conference agreement it is estimated that the yield will be three billion five hundred and thirty-three million. Thus our original goal of three billion five hundred million will have been achieved if the bill as agreed to by the conferees becomes law.

With respect to the procedural steps taken by the House conferees, I desire to make a brief statement. It is always desirable, both from the point of view of the taxpayer and of the Government, that excise taxes become effective upon the first of a month. In addition, fair play and equitable considerations strongly indicate that taxpayers should have at least 10 days' notice of the imposition of an excise. For example, theaters must have new tickets printed upon changes in the admissions tax, and all taxpayers need to set up their books and make other changes in order to make a proper accounting.

For these reasons it has been our aim to have the bill enacted before the 20th of September, next Saturday, so that it may become effective as to the excise taxes upon the 1st of October. If this action were delayed so that it could not become effective before November 1, it would mean the loss of almost $100,000,000 in excise-tax revenue. When the House recessed it was not anticipated that the Senate would act so speedily. Consequently, when it was learned that the bill had passed that body, it was felt thus in the interests of the expedition of final passage, the House conferees should not delay until their formal appointment.

With these considerations in view, the House conferees have met informally with the Senate conferees so as to be ready to report an agreement to the House as speedily as possible.

As I have said before, the bulk of the Senate amendments to the House bill are purely clerical or technical in nature and need no discussion. I shall give you a brief summary of the substantive amendments and of the conference action thereon.

There were 164 Senate amendments. Of these, all but 43 are of a clerical or technical nature. Of the substantive amendments, the Senate receded on 17 and the House receded on 23. The balance were compromised. The tax on local telephone bills was reduced from 10 percent, the Senate bill rate, to 6 percent; the House bill rate was 5 percent. The tax on wines containing between 14 and 21 percent alcohol was reduced from 35 cents, the Senate rate, to 30 cents; the House bill rate was 24 cents. The tax on electric-light bulbs was reduced from 10 percent, the Senate rate, to 5 percent; there was no comparable tax under the House bill.

The most important Senate amendment, which was agreed to by the House conferees, was the reduction of the personal exemption of single persons from $800 to $750 and of married persons from $2,000 to $1,500. The House conferees were forced to agree to this amendment in order to make up the loss of revenue caused by the action of the House in the elimination of the joint return. The Senate Finance Committee inserted a provision taxing persons in community-property States on the same basis as persons in non-community-property States. However, the Senate leaders did not insist upon this amendment, and agreed to withdraw it in order to give an opportunity for hearing, with the understanding that this question would be considered in the administrative bill. It will be recalled that the mandatory joint-return provision, which affected only 5 percent of the married persons paying income tax, would have resulted in additional revenue of approximately $300,000,000. The lowering of the exemptions will produce $303,000,000, of which $47,000,000 will come from new taxpayers. The number of new taxpayers is estimated to be 2,275,000. The total number of persons expected to be liable for income tax will be 13,181,000. The total number of income-tax returns expected to be filed will be 22,108,000.

We have heard some complaint about people in the low-income groups being too heavily taxed by reason of these lowered exemptions. Here are some of the figures:

Single man:	
Income of $750	No tax.
Income of $800	$2 tax.
Income of $1,000	$18 tax.
Married man:	
Income of $1,500	No tax.
Income of $1,600	$5 tax.
Income of $1,700	$11 tax.
Income of $1,800	$19 tax.
Income of $2,000	$37 tax.

As already pointed out, the greater part of the burden of the increased revenue to be secured from lowering the exemptions falls upon existing taxpayers. For example, in order to get $2 in tax from a single man with an income of $800, a single person with an income of $5,000 will be required to pay $8.25 additional tax. In order to secure $5 in tax from a married person with an income of $1,600, a married person with an income of $5,000 will have to pay $66 additional. To carry the comparison still further, a married man with $10,000 of income will have to pay $126.50 more in order to collect $5 from a married man with an income of $1,600. Thus, it is readily demonstrated that the chief portion of this burden is falling not upon new taxpayers brought in by the reduced exemption but upon persons already paying income tax. However, it was necessary to agree to this amendment in order to make up the deficiency in revenue caused by the elimination of the mandatory joint return.

One amendment of the Senate which the House agreed to was that providing a simple method of computing tax on incomes below $3,000. In order to cause these persons the least possible amount of difficulty in computing their tax and filing their returns, an optional simplified return may be filed where the taxpayers' income does not exceed $3,000 and is derived solely from wages, salaries, compensation for personal services, dividends, rents, annuities, or royalties. If the taxpayer elects to use this optional method, he will find his tax already computed in a table set out in the law and on his return itself. One set of amounts is provided for married persons and another set for single persons. If the taxpayer has dependents, he reduces his income by $400 for each dependent before he applies the table. The average deductions now taken by taxpayers in these brackets has already been allowed in arriving at the tax shown in the table.

Another important amendment which the House conferees agreed to was the elimination of the 10-percent penalty tax upon corporations using the invested-capital method. It was contended that this tax would work a severe hardship

upon many small corporations with very little or no earnings in the base period. It would have been particularly severe as applied to many railroads, coal, and lumber companies. By the reversal of the deduction for taxes paid provided in the House bill, the invested capital credit of corporations was, in effect, reduced from 8 percent on the first $5,000,000 of invested capital to 5.6 percent and that of 7 percent on invested capital in excess of $5,000,000 was, in effect, reduced from 7 percent to 4.9 percent. It was believed that corporations should be entitled to at least this return before being subjected to excess-profits tax. New corporations which may make all of their profits out of the defense program are not only entitled to the regular credit before any excess-profits tax is imposed but are also given an additional credit of 25 percent for new capital. Therefore it is not believed fair and equitable to impose upon old corporations which, though in distress, had been able to weather the base-period years a penalty tax merely because their earnings during the base period were not sufficient to equal the invested-capital credit.

It will be recalled that the House levied a surtax upon corporations of 5 percent on the first $25,000 and 6 percent upon the balance. The Senate increased these surtax rates by 1 percent, so that the rate becomes 6 percent on the first $25,000 and 7 percent on the balance. The House conferees agreed to this amendment.

The House bill imposed a 10-percent manufacturers' excise tax upon washing machines of the type used by commercial laundries. The Senate extended this tax to apply to all washing machines. The Senate conferees receded from this amendment and accepted the House provision.

With respect to wines, the Senate amendment greatly increased the rates over those imposed in the House bill. The conferees accepted the House rate of 8 cents a gallon on wines containing not over 14 percent alcohol, instead of the Senate rate of 10 cents a gallon. On wines containing from 14 to 21 percent alcohol, the House provided a rate of 24 cents a gallon and the Senate a rate of 35 cents. On this amendment a compromise was reached fixing the rate at 30 cents a gallon. On wines containing more than 21 percent alcohol and upon champagne and other sparkling wines and liqueurs, the House conferees agreed to the increased rates of the Senate amendments.

The Senate removed the differential between brandy and other distilled spirits. Brandy, under the House bill, was taxed at $3.75 per gallon while other distilled spirits were taxed at $4 per gallon. The House conferees agreed to this amendment and brandy will now be taxed at $4 per gallon the same as any other distilled spirits. A corresponding increase was made in the floor-stocks tax as applied to brandy.

The House levied a tax of one-sixth of 1 cent a bottle on bottled soft drinks with a corresponding tax on the sirup and gas sold at soda fountains. Many of the small bottlers complained that they would be unable to absorb this tax and that its imposition would prevent them from continuing in business. The Senate conferees seemed very much impressed with the possible hardships. The House conferees agreed to the elimination of this tax.

One of the most important amendments was one substituting for the retail tax on jewelry in the House bill, a 15-percent manufacturers' tax on jewelry, with a floor-stocks tax at the same rate. It was demonstrated that a jewelry tax on the manufacturers sale would result in unfair trade practices and substantial evasion of the tax. Upon this amendment the Senate receded.

The House bill imposed a tax of 5 percent upon the local telephone bills. The Senate increased the rate of this tax to 10 percent. We felt that this high rate would result in too great a burden upon many local and rural communities, consequently, a compromise was worked out fixing the rate at 6 percent.

On the admissions tax, the House provisions largely prevailed. The Senate conferees agreed to the House action eliminating the many classes of exemptions from this tax. We agreed to the Senate amendment, which allowed no exemptions from the admissions tax where the charge was under 10 cents, except with respect to children under 12 years of age.

As to the House provisions taxing radio broadcasting and billboards, we were unable to get the Senate conferees to agree. These taxes were bitterly opposed before the Finance Committee and with respect to the radio-broadcasting tax, the Chairman of the Communications Commission, Mr. Fly, expressed the opinion that the radio tax would cause an undue hardship upon that industry. It was felt that this entire subject should receive further study before taxes of this character are imposed.

The Senate made a number of administrative amendments which we felt should go over to the administrative bill. On these, the Senate receded. Among such amendments was one designed to overcome the decision of the Supreme Court in the Higgins case. This case dealt with the disallowance of expenses incurred by trustees and custodians and other fiduciaries. In this respect, the Bureau of Internal Revenue advised us that wherever possible final decision on issues arising under this decision will be deferred pending later legislation.

One amendment in which I was particularly interested establishes a committee to investigate nonessential Federal expenditures. The committee is to be composed of (a) three members of the Senate Committee on Finance and three members of the Senate Committee on Appropriations, to be appointed by the President of the Senate; (b) three members of the House Committee on Ways and Means and three members of the House Committee on Appropriations, to be appointed by the Speaker of the House of Representatives; and (c) the Secretary of the Treasury and the Director of the Bureau of the Budget. It will be the duty of this committee to make a complete study of all expenditures of the Federal Government with a view to recommending the elimination or reduction of all such expenditures deemed to be nonessential. The committee will report to the President and to the Congress the result of its study together with its recommendations at the earliest practicable date. On this amendment the House conferees willingly agreed and we express our fervent hope that the committee will be able to accomplish some forward steps toward this much-desired goal.

With respect to the club-dues tax, I desire to state that on page 54 of your committee's report on the bill it is stated that, for the purposes of the tax on club dues, the term "dues" is redefined to include certain privilege fees and assessments not now subject to the tax. Inasmuch as the taxability of the fees and assessments referred to has not yet been finally determined by the courts and is the subject of pending litigation, it would be more accurate to describe the redefinition of the term "dues" in the manner adopted in the report of the Finance Committee of the Senate, as follows:

> The committee * * * believes the redefinition of the term "dues" to be very helpful in avoiding litigation. Under existing law a number of privilege fees and assessments are subject to tax as club dues. Some taxpayers have alleged either that there is an ambiguity in the present law or that it cannot be construed to cover certain types of fees. It is, therefore, desirable, in order to avoid litigation, to define in very direct terms what is intended to be covered by the term "dues."

Mr. CROWTHER. Over $300,000,000 was taken from the bill when the mandatory joint return was lost in the House. We all know how it was lost; we all know exactly how it was done. I understand by press reports that it made a difference of approximately $15,000 to $17,000 in the income tax of our illustrious President, together with his delightful wife; at least that much. Was any effort made to raise that sum other than by going down into the "sticks" and lowering these exemptions, as they have done, to $750 and $1,500?

I call the attention of the chairman to the fact that under the report made to this committee, covering a study of 2 or 3 years, a man with $1,800 of income pays $230 in hidden taxes. Does the gentleman mean to tell me that that man is not tax conscious, when $230 out of his $1,800 he pays in hidden taxes on beer, gasoline, cigars, and cigarettes? I notice that cigarettes did not get a hoist, tobacco did not get a hoist, gasoline did not get a hoist, and beer did not get a hoist.

Mr. DOUGHTON. The gentleman will concede that they have all been taxed and retaxed.

Mr. CROWTHER. I wonder if all the avenues of taxation have been exhausted?

Mr. DOUGHTON. If the gentleman is addressing that question to me, he is just as familiar with what transpired in the Senate as I am. They said that they considered every other source of taxation, and this was the most equitable, the most fair, and the most logical source from which they could raise it.

Mr. CROWTHER. What was the reason for doing away with the 10-percent special tax that was levied on those corporations who were not liable under the excess-profits tax but were still making

enormous returns over what they had earned during the average period? Why was it that was done away with?

Mr. DOUGHTON. That question would more appropriately be addressed to the Senate Finance Committee, as that was a Senate amendment. The Senate eliminated this 10-percent tax.

Mr. CROWTHER. Did you not fight it out with them in conference?

Mr. DOUGHTON. You cannot fight everything out in conference. You must concede something, and the gentleman will realize that the provision with respect to the special 10-percent excess-profits tax was put in to make up the revenue sought. It was not considered at first in our bill, but was put in to make up the three and a half billion dollars that was necessary to be raised.

Now, with respect to what the gentleman has said, it was clearly shown to us that if that special excess-profits tax remained in the bill, it would certainly impose some very definite hardships on certain legitimate corporations; for instance, the railroad companies, many of whom, in recent years, have been in the hands of receivers. This was also true as to lumber and coal companies. Necessarily they would have to make their returns on the invested-capital plan as they had no profits during the base period years and could not make their returns under the average-earnings plan. They would have to pay an excess-profits tax when, perhaps, they might not be making more than 3 or 4 percent, and I, for one, did not insist very strongly on that. I know, of course, that all the members of the committee, including my good friend the gentleman from Tennessee [Mr. COOPER] did not agree with me about that. I think this was one of the most reasonable amendments that the Senate adopted because I am sure it would have imposed hardships on some corporations that have had a hard time during the depression years.

Mr. MAY. Mr. Speaker, will the gentleman yield?

Mr. DOUGHTON. I yield to my friend from Kentucky.

Mr. MAY. In regard to the statement of the gentleman from New York [Mr. CROWTHER], with respect to why you did not provide a raise in the tax on tobacco, I think the previous hearings of the Ways and Means Committee will disclose that, as a matter of fact, the product of the tobacco farmer yields to the Government about $1,000 an acre.

Mr. KNUTSON. Eleven hundred dollars.

Mr. DOUGHTON. The truth is that matter was fully discussed in the committee, and it was clearly in the minds of most of us that tobacco is heavily taxed now, and if the additional tax that was recommended by the Treasury were imposed it would be passed onto the farmer. And I may say that the tobacco farmers made one of the best presentations of their case that I have ever heard made by any group of people appearing before our committee.

Mr. O'CONNOR. Mr. Speaker, will the gentleman yield?

Mr. DOUGHTON. I yield to my friend from Montana.

Mr. O'CONNOR. I want to make this observation——

Mr. DOUGHTON. Do not make too long an observation.

Mr. O'CONNOR. I regret very much that we lowered the exemptions on both married and single persons, because this will result in a lower standard of living for the lower-income group. The lower a person's income is, the higher his rate of taxation, relatively speaking, according to statistics from Monograph No. 3, given to the National Economic Committee. For instance, a man with an income of $500 a year pays out 21.9 percent of his income in taxes, which includes Federal, State, and local taxes. In the case of persons receiving incomes of from $500 to $1,000 a year, 18 percent of their income is paid out in taxes. A person receiving $3,000 to $5,000, the tax is 17.6 percent. In other words the larger the income, the lower proportionally his taxes. Therefore, this is not in accordance with the principle of making one pay according to ability to pay.

Mr. DOUGHTON. I would like to say to the gentleman that while, of course, the House bill did not provide for lowering the exemptions, it will be seen that in this great emergency with which we are dealing today and which is the occasion for this tax bill, the lowering of the exemptions will not put a very heavy burden on them. For instance, a single man with an income of $750 will pay no tax. A man with an income of $800 will only pay $2. I do not think he will object to taking that much stock in financing the defense of his country.

Mr. KNUTSON. He ought to be thankful for the privilege.

Mr. DOUGHTON. With $1,000 he would only pay $18. A married man with an income of $1,500 will pay no tax. With an income of $1,600 he will pay only $5, or with an income of $1,700, $11. With an income of $1,800 he will pay $19, and with an income of $2,000 he will pay $37. This is not going to cripple the present standard of living very much.

Mr. O'CONNOR. The point I make is that the lower the income, the larger the slice of his income goes for taxes, proportionally speaking.

Mr. DOUGHTON. Of course, but did the gentleman have that in mind at the time of the vote on joint returns? Did not the gentleman vote against joint returns?

Mr. O'CONNOR. This is going after the poor man and is not basing the tax on ability to pay.

Mr. DOUGHTON. How did the gentleman vote on the question of joint returns?

Mr. O'CONNOR. I was not here.

Mr. KNUTSON. Where was the gentleman?

Mr. O'CONNOR. I was on business in Montana.

Mr. McGREGOR. Mr. Speaker, will the gentleman yield?

Mr. DOUGHTON. I yield to my friend from Ohio.

Mr. McGREGOR. Is it the gentleman's opinion that admissions to local county fairs will be taxable under this bill?

Mr. DOUGHTON. Yes.

Mr. KNUTSON. Mr. Speaker, will the gentleman yield?

Mr. DOUGHTON. Yes.

Mr. KNUTSON. One of the purposes in broadening the base, some members of the committee thought, was that we might be able in that way to find the forgotten man.

Mr. RICH. Mr. Speaker, will the gentleman yield?

Mr. DOUGHTON. Yes.

Mr. RICH. The gentleman from Texas [Mr. SUMNERS] a few moments ago spoke with reference to the community-property States, and said that the bill does not deal with that subject. I read on page 10 of the report in reference to the community-property States, the statement that that feature was eliminated by the Senate with the understanding that it would be the subject of hearings and action in the administrative bill.

The SPEAKER. The gentleman will suspend. The time of the gentleman from North Carolina has expired.

Mr. DOUGHTON. Mr. Speaker, how much time have I remaining?

The SPEAKER. Twenty-five minutes.

Mr. DOUGHTON. Mr. Speaker, I yield myself 5 minutes.

Mr. RICH. Mr. Speaker, I understand that the President had something to do with the stopping of this now, because he was afraid that it might defeat the bill, and that he would see to it that it would be taken up and justice done, and that those States would be compelled to pay in accordance with these other States. We are going to see now whether the President of the United States will make good on that proposal to these conferees.

Mr. DOUGHTON. Mr. Speaker, I have no information about that at all. This is the first that I ever heard of it. I have no information on that subject at all. Of course, the President did take a broad stand, as we all know, late in the proceedings in the House for lowering the exemptions. Then the Treasury Department, when the bill got into the Senate, reversed itself and took a position favorable to lowering the exemptions, and, with the Senate and the President having taken that position, and the Treasury taking that position, and being short that amount of money, the gentleman can understand what the House conferees were up against, and with no other way in sight of raising that amount of money.

Mr. RICH. Further, I heard the statement made that this is an emergency tax bill. Why, this tax bill should have been put upon the people 10 years ago if we intend to meet the obligations which the Congress has encouraged and undertaken. It is not an emergency tax bill at all.

Mr. MICHENER. Mr. Speaker, will the gentleman yield?

Mr. DOUGHTON. Yes.

Mr. MICHENER. As I understand it, the committee does not contend that this is a scientific tax bill?

Mr. DOUGHTON. Not 100 percent.

Mr. MICHENER. The task of the committee was to raise money.

Mr. DOUGHTON. Yes.

Mr. MICHENER. And it tapped all available reservoirs where money could

be found. The committee reported a bill to the House, and the House eliminated from that bill by a vote in the House some $300,000,000 prospective taxes?

Mr. DOUGHTON. We worked about 6 months and did the best that we could. Of course, no tax bill will ever be considered perfect by any Member of the House and I do not suppose our committee would ever feel that it had reported a perfect tax bill. Of course, it is not and never will be, until the millenium comes, and then perhaps it will be.

Mr. MICHENER. At least we should have enough experience before that time comes if we keep on writing new tax bills. The committee reported a bill that would raise $3,500,000,000 annually?

Mr. DOUGHTON. Yes.

Mr. MICHENER. And the House deliberately, and after considerable debate, struck out of that bill approximately $300,000,000?

Mr. DOUGHTON. Yes.

Mr. MICHENER. And the Senate tapped other reservoirs to provide that amount? Therefore any discussion here today about the joint returns of husband and wife is purely academic, so far as anything before the House at the moment is concerned. I say that although I favored the joint returns, and in the debate predicted that if that provision was stricken from the House bill the $300,000,000 would have to be secured from other sources. Now the bill and this conference report will remove this $300,000,000 tax burden from the married couples who, are able to pay and place it upon the backs of those married couples with a $1,500 income and the single persons with $750 income. It is all right to talk about making the people tax conscious, but it is all wrong to place this tax on those least able to pay. I realize, however, that this discussion is academic at this point in the proceedings, but I do want to voice my protest.

Mr. DOUGHTON. It is academic now. It will be realistic a little later.

Mr. MICHENER. That is what I wanted to say. There will be another tax bill here very soon. This is important, and the country does not realize it. There will be another tax bill here possibly in November as disclosed by this debate. Let the taxpayer not forget that this bill is but the beginning and is only one-half of the first $7,000,000,000 lend-lease appropriation.

Mr. DOUGHTON. I would like to say in conclusion that the impression seems to have gone abroad, and it has been very much emphasized in the press, that this is mostly a Senate bill. Those who are familiar with the bill know that this is mainly a House bill and not a Senate bill.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Speaker, I yield myself 3 additional minutes.

Of course, the House conferees receded in a greater number of cases on amendments than did the Senate, but that is always the case. Many of the amendments in the bill which the Senate adopted were just clerical amendments, changing section numbers, and so forth.

Mr. JENKINS of Ohio. Mr. Speaker, will the gentleman yield?

Mr. DOUGHTON. I yield.

Mr. JENKINS of Ohio. I am glad the gentleman brought that up. I think it is an insult to the work of the members of the Ways and Means Committee for anybody to say that this is primarily a Senate bill. It is not. The Senate has only made two material changes. One is the simplified return, and the other is the reduction of the exemptions to $1,500 and $750, respectively.

Mr. DOUGHTON. That is true.

Mr. HAINES. Mr. Speaker, will the gentleman yield?

Mr. DOUGHTON. I yield.

Mr. HAINES. I am seeking information to impart to the principals of our high schools. They are asking me if there is an admission tax on their athletic contests.

Mr. DOUGHTON. Yes; there is.

Mr. RICH. Mr. Speaker, will the gentleman yield?

Mr. DOUGHTON. I yield.

Mr. RICH. According to amendment No. 160, there is to be a committee appointed to investigate Government expenditures.

Mr. DOUGHTON. And the House receded unanimously on that; and if this conference report is adopted, that provision will remain in the bill.

Mr. RICH. Do you have any hope that this committee will get any action, so that we will cut down a billion dollars on appropriation bills?

Mr. DOUGHTON. I will say, with respect to that, that if I happen to be a member of that committee I shall do everything I can to see that something is accomplished under that provision of the bill. It is one of the most important and one of the most necessary provisions in the bill.

Mr. RICH. I hope the gentleman will do everything he can; but I wonder if he can get the President and the Secretary of the Treasury to do it? They said 4 or 5 months ago that we should cut down a billion dollars, but they have not done a thing to accomplish that. Since you are a member of that committee, I know we are going to get action.

[Here the gavel fell.]

Mr. DOUGHTON. Mr. Speaker, I yield myself 2 additional minutes.

Mr. COCHRAN. Mr. Speaker, will the gentleman yield?

Mr. DOUGHTON. I yield.

Mr. COCHRAN. Mr. Speaker, I think it is proper to read at this point what the gentleman from North Carolina [Mr. DOUGHTON] said just before we voted on this bill. I read from the RECORD of August 4, page 6731. This is what he said:

> The issue here today is one of integrity, one of fair dealing, one of fair play in matters of taxation and that is the issue that will confront us and must confront us when we approach the settlement of this great question. Defeat the joint-return provision today and it may be that the taxes on automobiles and on gasoline and the personal-income taxes will have to be increased. This question will come back to haunt you like Banquo's ghost and it will not be settled until it is settled right.

That is what the gentleman from North Carolina [Mr. DOUGHTON] said, that is what I said at the time, and that is just exactly what happened.

Mr. DOUGHTON. Mr. Speaker, I ask unanimous consent to revise and extend my remarks.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

Mr. DOUGHTON. Mr. Speaker, I yield to the gentleman from Massachusetts [Mr. TREADWAY] 10 minutes.

Mr. TREADWAY. Mr. Speaker, I think the chairman of our committee the gentleman from North Carolina [Mr. DOUGHTON] ought to have a little relief from the barrage of questions that have been put to him by Members from both sides of the House during the almost three-quarters of an hour that he has occupied the floor. Therefore, I am willing to relieve him to the extent of the 10 minutes that he has just granted me.

I want to touch on a few of the high points, as I see them, in the conference report. I would like the attention of the gentleman from Michigan [Mr. MICHENER], who a few moments ago said the discussion having to do with joint returns and community property was entirely academic. I wish to refute that statement, because the basis of our effort to secure joint returns was to overcome the community-property situation, which is very acute, and it is just as acute as it was when it was originally placed in the bill by the Ways and Means Committee. Therefore, this question is not academic. It is before Congress at the present time and must be fought out until equality is brought about among taxpayers throughout the country, so that residents of the 8 community-property States will not continue to receive the tremendous tax advantage they now enjoy at the expense of taxpayers in the other 40 States. There is no reason in the world why 8 States should have this benefit, which benefit is not enjoyed by citizens of the 40 other States. One State, Oklahoma, admits through its Representative here that it has been forced against its will to adopt the system of community property in order to discourage the movement of its citizens to adjoining States in order to avoid taxation. The hour has come when no citizen should be allowed to escape his fair share of the tax burden, and when residents of those 8 States step up to the Treasury counter and present their tax returns they should pay on the same basis as the man and woman from the States of Massachusetts, North Carolina, and the other 40 States not having the community-property system, which allows husbands and wives to split up their incomes and avoid surtaxes.

Mr. Speaker, there are several outstanding features in this conference report. First of all, I want to refer to the simplified form of income-tax return. Something has been said about the number of employees who will be needed to handle the extra number of tax returns to be received under the operation of the bill. I want to say that if the Treasury has not done another good deed toward the citizens of the country it has at least done one in the offering of the simplified form of return for incomes under $3,000. If there is one thing that provokes the people beyond all others when it comes to

making out their tax returns it is the complications they face year after year. While this feature may interfere perhaps with the prosperity of tax lawyers it will work to the advantage of a great many of our taxpayers, and it is well that this simplified form has been put into the law.

Those having incomes of $3,000 or less are permitted to use this short form of return at their option. They can look at the table and tell at a glance what their tax will be without computing deductions, exemptions, and so forth. If this new form should prove successful, it may be made available to taxpayers with somewhat larger incomes.

One other matter of very great interest to me is amendment No. 160, providing for the creation of a joint economy committee. This amendment follows out an idea which I proposed some time ago. I am a little egotistical in saying I sponsored a similar proposition a number of months ago in the form of a resolution asking this House to create a special joint committee to reduce nondefense expenditures. I did not get very far with my proposal, which is still pending before the Rules Committee, but it has become so apparent that savings could and should be made in nondefense items that it has now been incorporated in this bill in the form of the establishment of a joint committee. This committee will have its work cut out for it, but it will be serving the people of the country if it finds a method of reducing nondefense expenditures. And I want to say in this connection it is not a partisan matter, but we have put that question up time and time again to the administration. Those in authority in the country will not undertake to perform that service even on the advice of the Secretary of the Treasury, Mr. Morgenthau. He has advised our committee that expenditures could be very much reduced, but they have not been; on the contrary they are increasing constantly. I call especial attention therefore to the value of amendment No. 160 setting up a committee that will study this problem and I hope devise methods of reducing expenditures in nondefense items.

If the masses of people are to be called upon for burdensome taxes to meet defense costs, there should likewise be drastic reductions in nondefense expenditures.

I therefore most heartily endorse the proposed joint committee of the House and Senate, which will be charged with the duty of making definite recommendations for such reductions.

If the administration refuses to take the leadership in the matter of economy, then it is up to the Congress itself to do so.

Mr. REED of New York. Mr. Speaker, will the gentleman yield?

Mr. TREADWAY. I yield.

Mr. REED of New York. I am wondering if modesty prevents the gentleman from telling the Members that he introduced a bill to do that very thing just a short while ago.

Mr. TREADWAY. It is House Concurrent Resolution 6. I referred to that slightly, but I did not want to appear egotistical in referring to myself. I believe the gentleman from New York will corroborate my statement that I interrogated the Secretary of the Treasury on that very point when he was before the committee.

Mr. REED of New York. That is certainly true.

Mr. TREADWAY. I feel rather proud of the fact it has been incorporated in this bill, although I do not pose as being the author of the provision as it appears.

Under the conference agreement, the personal exemptions will be reduced to $750 for single persons and to $1,500 for married persons. This amendment was adopted by the Senate upon the recommendation of the President. The House conferees were faced with the necessity of agreeing to this change in view of the fact that if it had not been adopted the bill would fall $300,000,000 short of the three and one-half billion total which was sought.

Under the bill as reported to the House by the Ways and Means Committee, we proposed the retention of the present exemptions, and would have raised this same amount by taxing those now escaping their fair share of the tax burden. The House eliminated this feature of the committee bill, and the Senate did not reinsert it. Instead, it adopted the President's suggestion for broadening the tax base.

While the amendment will bring some two and one-half million new taxpayers under the income tax, it is, nevertheless, a fact that most of the increased revenue will come from present taxpayers, who will have their taxable income increased by the amount the exemption is lowered.

We have done several other things in this measure which are worth while, and to which I wish to refer briefly. One of them which will help the people of the country is the removal of the tax on soft drinks. In the Ways and Means Committee, we originally considered a 1-cent-per-bottle tax, as recommended by the Treasury. We reduced it to one-sixth of a cent a bottle so there would be a 4-cent tax on 24 bottles, and it passed the House in this form. The Senate eliminated the tax, and the conferees have concurred in that action. This is beneficial in this way: We have got to do something for the small businessman. The big people in the soft-drink business would be able to absorb the tax, but the small dealer could not. He would be at a competitive disadvantage and would soon be put out of business by the large concerns. By taking the tax off entirely we help the small manufacturer of soft drinks to stay in business, and it will also reduce the chances of making a 6-cent drink necessary.

In the case of jewelry, the conference agreement restores the House provision for a 10-percent tax on retail sales, rather than the 15-percent manufacturers' tax adopted by the Senate. Under the retail tax, no floor tax will be required.

Mr. Speaker, a good deal has been said here in relation to another tax bill to follow this one. I think it is only fair in this connection for the country to know that the next bill will be an administrative bill. There were certain administrative amendments which would have been in this conference report had it not been for the fact that the Treasury Department said they would bring in another bill in the very near future covering many administrative matters. The details of the forthcoming bill are not material to the discussion here. The administrative features were cut out of this bill, with the assurance that such administrative features as were desirable to administer the law can be properly taken care of in the next bill, and be made retroactive where desirable to do so.

I do not think the taxpayers need be particularly frightened as to new taxes in the administrative bill. They will come later. Let nobody think he will escape taxation, but he need have no fear of another bill similar to this, at least before next year. The administrative bill will be considered in the very near future.

Mr. JENKINS of Ohio. Mr. Speaker, will the gentleman yield?

Mr. TREADWAY. I yield.

Mr. JENKINS of Ohio. As I understand it, the newspapers carried reports that there were four administrative features incorporated in the Senate amendments.

Mr. TREADWAY. There were several such amendments.

Mr. JENKINS of Ohio. Whatever the number may be, they were not included in this report for the reason that assurance was given they would be included in the next bill.

Mr. TREADWAY. The gentleman is correct.

The conference agreement omits a number of administrative amendments made by the Senate, though in most cases no objection is made to the subject matter. I was particularly interested in the so-called Adams amendment, dealing with the allowance for expenses incurred in the production of income, which has been disturbed by a recent Supreme Court decision. The Treasury is favorable to this amendment, and there seems to be no opposition to it either in the Ways and Means Committee or the Finance Committee.

However, we had an understanding in the Ways and Means Committee that no administrative matters would be taken up in connection with this bill but would be deferred for consideration in connection with the proposed administrative bill. The Finance Committee likewise adhered to this position. All the administrative amendments were added on the Senate floor. They are omitted from the conference report without prejudice and will be considered at a later date.

Mr. JENKINS of Ohio. As I understand it, this administrative bill that has been promised for about 2 years will involve two or three hundred material changes in the law, but not in rates or in dollars?

Mr. TREADWAY. I hope to see some changes in rates, because when this bill is put into operation it will be found that we have skipped some possibilities of taxation and in the emergency of the day they are going to get caught. The main purpose of that bill will be to correct administrative difficulties that have arisen by experience in the Department.

Mr. JENKINS of Ohio. Does the gentleman think sometime between now and Christmas the Ways and Means Committee will bring in another bill along with this administrative bill or as a part of this administrative bill that will deal with these things?

Mr. TREADWAY. I think it will be incorporated in one bill, but I do not know when it will come up. I think it will be effective before the 15th of March next year.

Mr. Speaker, I want to refer to one other matter that has been spoken of on the floor here, namely, taking out the proposed tax on radio broadcasting advertising. There may be merit in some form of radio tax, but I am not going to discuss the merits or demerits of the tax itself. It would be an exception to the present law to have a tax on radio advertising. No advertising tax has been included in any tax bill, and there is no reason why it should start with radio broadcasting. If you are going to have a tax on advertising it should apply to all forms of advertising, not to one.

It should be made clear that this tax bill will not be the last one during the present emergency.

It was inadequate to meet our fiscal requirements even before it left the Ways and Means Committee. The demands upon the Treasury are growing so large that a further revenue bill will undoubtedly be requested next year, if not before.

The pending bill is only a first step in the direction of what our emergency taxes will eventually be.

The taxes it imposes will pinch, but later on we may expect to really be "put through the wringer." It would be well for the people to take note of the handwriting on the wall and prepare themselves for the tax burden which is coming.

That burden will be greatly aggravated by the past extravagances of the New Deal, which have strained the public credit and used up the available sources of Federal taxation.

But the defense of our country, both from external aggression and internal collapse, can only be accomplished by preserving the Nation's credit. Hence we have no choice but to shoulder the increased burden as it comes.

Mr. DOUGHTON. Mr. Speaker, I move the previous question on the adoption of the conference report.

The previous question was ordered.

The conference report was agreed to.

A motion to reconsider was laid on the table.

EXTENSION OF REMARKS

Mr. REED of New York. Mr. Speaker, I ask unanimous consent to extend my own remarks in the RECORD and to include an editorial and some quotations from the Dunkirk Observer.

The SPEAKER. Is there objection to the request of the gentleman from New York [Mr. REED]?

There was no objection.

Mr. REED of New York. Mr. Speaker, I ask unanimous consent to extend my own remarks in the RECORD and to include a list of foreign wars.

The SPEAKER. Is there objection to the request of the gentleman from New York [Mr. REED]?

There was no objection.

RETIRED PAY AND HOSPITAL BENEFITS TO CERTAIN RESERVE OFFICERS

Mr. MAY. Mr. Speaker, I ask unanimous consent to take from the Speaker's table the bill (H. R. 3484) to provide retirement pay and hospital benefits to certain Reserve officers, Army of the United States, disabled while on active duty, with Senate amendments thereto, and concur in the Senate amendments.

The Clerk read the title of the bill.

The Clerk read the Senate amendments, as follows:

Page 2, line 8, after "retirement" insert "pay."

Page 2, line 9, strike out "provided herein" and insert "of the said statute."

Page 2, lines 9 and 10, strike out "whether disability exists and whether such disability was incurred in line of duty" and insert "of all questions of eligibility for the benefits thereof, including all questions of law and fact relating to such eligibility."

The SPEAKER. Is there objection to the request of the gentleman from Kentucky [Mr. MAY]?

Mr. MARTIN of Massachusetts. Mr. Speaker, reserving the right to object, will the gentleman from Kentucky [Mr. MAY] explain these amendments?

Mr. MAY. May I say to the distinguished minority leader that I overlooked discussing this matter with him, but I did discuss it with the gentleman from New Jersey [Mr. THOMAS], a member of the Military Affairs Committee of the House, and this is satisfactory to him.

Mr. MARTIN of Massachusetts. The House would like to know what the amendments are.

Mr. MAY. The bill as originally passed required that the Secretary of War should determine, first, whether a soldier was disabled, and if he found the soldier was disabled, then the next question to determine was whether or not the disability resulted from a service connection or injury; in other words, in line of duty. That is as far as the House bill went.

The Senate then provided—and, I think, very properly—that in the determination of the two facts, first, the existence of the disability, and, second, that it was service-connected, the Secretary should also find the state of facts upon which he made his determination, and that should go in the record.

The SPEAKER. Is there objection to the request of the gentleman from Kentucky [Mr. MAY]?

There was no objection.

The Senate amendments were concurred in.

A motion to reconsider was laid on the table.

EXTENSION OF REMARKS

Mr. SHEPPARD asked and received permission to extend his own remarks in the RECORD.

SPEAKER RAYBURN

Mr. COCHRAN. Mr. Speaker, I ask unanimous consent to address the House to make an announcement.

The SPEAKER. Is there objection to the request of the gentleman from Missouri?

There was no objection.

Mr. COCHRAN. Mr. Speaker, 1 year ago today the present occupant of the chair was elected Speaker of the House of Representatives, referred to now and in the past by outstanding statesmen and writers as the most important legislative body in the world. Next to the President of the United States no individual in this country has more power under our form of government.

The wisdom of this action has been clearly demonstrated. I say without fear of contradiction that a more fearless and fair Speaker has never occupied the chair. Not only that, but, Mr. Speaker, you brought with you the experience you gained as a presiding officer in the Legislature of the great State of Texas, which you in part represent.

Mr. Speaker, you have been fair and impartial in your rulings; you have, like all great Speakers, set precedents, and you have won the admiration and respect of every Member of this body.

I am sure the Members of this House join with me in extending congratulations on this, your first anniversary as Speaker, and I express the hope that you will see many more years of service in your present capacity.

EXTENSION OF REMARKS

Mr. BLOOM. Mr. Speaker, I ask unanimous consent to extend my own remarks in the RECORD and include therein an address delivered last evening by Mr. Donald M. Nelson, Executive Director, Supply Priority and Allocation Board, at the Mayflower Hotel.

The SPEAKER. Is there objection to the request of the gentleman from New York?

There was no objection.

Mr. BOEHNE. Mr. Speaker, I ask unanimous consent that my colleague the gentleman from Indiana [Mr. LARRABEE] be permitted to extend his own remarks in the RECORD.

The SPEAKER. Is there objection to the request of the gentleman from Indiana?

There was no objection.

Mr. DONDERO. Mr. Speaker, I ask unanimous consent to extend my own remarks in the Appendix of the RECORD and include therein a radio address delivered by me over radio station WJR, Detroit, on last Saturday, on the St. Lawrence seaway.

The SPEAKER. Is there objection to the request of the gentleman from Michigan?

There was no objection.

Mr. BROWN of Ohio. Mr. Speaker, I ask unanimous consent to extend my own remarks in the RECORD and include therein an article from the Cincinnati Times-Star.

The SPEAKER. Is there objection to the request of the gentleman from Ohio?

There was no objection.

(Mr. DITTER, Mr. WICKERSHAM, and Mr. VORYS of Ohio asked and were given permission to extend their own remarks in the RECORD.)

papers and documents on the files of the Departments of the Treasury, War, Justice (4), Interior, and Agriculture; the Interstate Commerce Commission, the Railroad Retirement Board, the Veterans' Administration, the Office of the Administrator, Federal Security Agency, the Social Security Board, Federal Security Agency, the Public Roads Administration, Federal Works Agency, and the Work Projects Administration, Federal Works Agency (6), which are not needed in the conduct of business and have no permanent value or historical interest, and requesting action looking to their disposition (with accompanying papers); to a Joint Select Committee on the Disposition of Papers in the Executive Departments.

The VICE PRESIDENT appointed Mr. BARKLEY and Mr. BREWSTER members of the committee on the part of the Senate.

PETITIONS

Petitions were presented and referred as indicated:

By Mr. CAPPER:

Petitions, numerously signed, of sundry citizens of Arkansas City and Morrowville, in the State of Kansas, praying for the enactment of the bill (S. 860) to provide for the common defense in relation to the sale of alcoholic liquors to the members of the land and naval forces of the United States and to provide for the suppression of vice in the vicinity of military camps and naval establishments; to the table.

By Mr. TYDINGS:

A petition of sundry citizens of Chestertown, Md., praying for the enactment of the bill (S. 860) to provide for the common defense in relation to the sale of alcoholic liquors to the members of the land and naval forces of the United States and to provide for the suppression of vice in the vicinity of military camps and naval establishments; to the table.

REPORTS OF A COMMITTEE

The following reports of a committee were submitted:

By Mr. SCHWARTZ, from the Committee on Pensions:

H. R. 1030. A bill to provide increases of pension payable to dependents of veterans of the Regular Establishment, and for other purposes; with an amendment (Rept. No. 677);

H. R. 1091. A bill to grant pensions to certain unremarried dependent widows of Civil War veterans who were married to the veteran subsequent to June 26, 1905; without amendment (Rept. No. 678); and

H. R. 1095. A bill to amend the act of March 3, 1927, entitled "An act granting pensions to certain soldiers who served in the Indian wars from 1817 to 1898, and for other purposes"; without amendment (Rept. No. 679).

BILLS INTRODUCED

Bills were introduced, read the first time, and, by unanimous consent, the second time, and referred as follows:

By Mr. KILGORE:

S. 1909. A bill granting a pension to Lulu Henrietta Holland; to the Committee on Pensions.

By Mr. McCARRAN:

S. 1910. A bill to restore the exemption from excess-profits tax for income derived from mining certain strategic metals; to the Committee on Finance.

By Mr. HATCH:

S. 1911. A bill granting an increase in pension to Ellsworth F. Bloodgood; to the Committee on Pensions.

By Mr. REYNOLDS:

S. 1912. A bill for the relief of James B. Lewis, Jarvis T. Mills, and Richard D. Peters; to the Committee on Claims.

(Mr. WHITE (for himself and Mr. BREWSTER) introduced Senate bill 1913, which was referred to the Committee on Commerce, and appears under a separate heading.)

By Mr. BARKLEY (for Mr. GLASS):

S. 1914. A bill to exempt strategic and critical materials from customs duties in certain cases, and for other purposes; to the Committee on Banking and Currency.

By Mr. WALLGREN:

S. 1915. A bill to assure conservation of and to permit the fullest utilization of the fisheries of Alaska, and for other purposes; to the Committee on Commerce.

WATER POLLUTION CONTROL

Mr. WHITE. Mr. President, on behalf of my colleague [Mr. BREWSTER] and myself, I introduce, for appropriate reference, a bill to create a division of water pollution control in the United States Public Health Service, and for other purposes.

I call the attention of the distinguished majority leader [Mr. BARKLEY] to the fact that the bill I am now introducing is patterned somewhat closely after legislation which he sponsored in a previous Congress. It also embodies some of the provisions found in a bill introduced by the Senator from Iowa [Mr. GILLETTE]. I think I should add that it contains provisions not found in either of the bills referred to.

I express the very earnest hope that the chairman of the Commerce Committee may refer the bill to the subcommittee which has been appointed, and to which the Gillette bill has been referred, in the hope that the bill may be considered by that subcommittee at the same time it studies and considers the Gillette bill.

The VICE PRESIDENT. The bill will be received and appropriately referred.

The bill (S. 1913) to create a Division of Water Pollution Control in the United States Public Health Service, and for other purposes, was read twice by its title and referred to the Committee on Commerce.

PROMOTION OF MEMBERS OF OFFICERS' RESERVE CORPS—AMENDMENT

Mr. REYNOLDS submitted an amendment intended to be proposed by him to the bill (S. 1058) to provide for the promotion of members of the Officers' Reserve Corps, which was referred to the Committee on Military Affairs and ordered to be printed.

EDITORIAL BY RICHARD B. SCANDRETT, JR., IN SURVEY GRAPHIC

Mr. GUFFEY. Mr. President, I have in my hand an editorial published recently in the Survey Graphic, a monthly magazine devoted to social welfare. The editorial was written by Richard B. Scandrett, Jr., a nephew of the late Dwight Morrow and cousin of Mrs. Anne Morrow Lindbergh. I hope that every appeaser and isolationist in the United States will read this editorial. I ask that it be printed in the RECORD as a part of my remarks.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

[From the Survey Graphic]

DO APPEASERS LACK FAITH IN FUTURE OF DEMOCRACY?

(By Richard B. Scandrett, Jr., President of Survey Associates)

During more than 150 years as a Republic, we have marched steadily ahead. We are far short of achieving a millenium, an economic, political, or social Utopia. But we have put our roots down deep, and these roots have grown fruit, ripening into the thought and institutions of our American civilization.

We have conquered Nature and made great strides in science and invention. We have created higher and higher standards of living, striving toward equality of opportunity, seeking to eliminate inequalities caused by accident of birth and handicaps of inadequate education and health.

We have accomplished this much because we have had faith in ourselves and in our future. We can accomplish even more, if we continue to believe in ourselves and in human progress.

Only when faith has wavered, has our progress been retarded. We need to ask ourselves today: Is our faith strong enough? Can we hold on to it? Because without faith, airplanes, battleships, and all the machinery of a war won't help us. Without faith, we shall generate our own downfall, quite apart from Hitler and his crusade for a "new world order."

KINSHIP WITH PEOPLE

To have faith in ourselves, we must have confidence in the Chief Executive of our democracy. The head of a democracy must be a man who, above all, has understanding and kinship with the average man. And I believe our present Chief Executive has that fundamental quality.

Those Presidents who have contributed most to our democratic progress have been courageous interpreters of public opinion rather than leaders. They certainly have not been "leaders" as the word is used in Germany and in Italy. That kind of leadership is a survival of feudalism and has no place in a dynamic democracy.

Those, like Lindbergh and WHEELER, who cry out for "new leadership" in this country are disciples of fascism, whether they know it or not. They have little faith in democracy and have accepted the dogma that "the people are sheep."

The powers of the President of the United States stem directly from all the people, and the leadership vested in him is the leadership of the people themselves. That is democracy.

LINCOLN UNDERSTOOD

One cannot read Sandburg's War Years without the deep appreciation that Lincoln understood this better than any of our Presidents. He had a steadfast faith in the people, and they, in turn, believed in him. He shared with them their common virtues and their common faults. He knew their hopes, their fears, their courage, and capacity for sacrifice, and their weaknesses. His mistakes were their mistakes. His victories were their victories. At his tragic death he bequeathed to the American people a reservoir of faith in democracy such as no nation had ever known.

The next time you listen to those who demand a "change in leadership" don't believe their glib talk about freedom. They are more than willing to destroy it. They are more than ready to appease the dictators. In one breath they prate of the sanctity of our Constitution, and in the next they

deny faith in the considered and collective judgment of the people, in their capacity to govern themselves.

For these reasons: They recoil from the logical evolution of the democratic process. They are horrified rather than pleased by the desire for social reform that has been growing steadily in this country since the beginning of the century. Like the Chamberlains and the Daladiers, their thinking is influenced by a fear of social change—by the fear that our Government may become more and more a government of, for, and by the people.

THEY HELP HITLER

Many of these appeasers have no conscious desire to help Hitler satisfy his lust for power; nor were all those whose minds went along with Chamberlain and Daladier intentional enemies of their countries. Yet they contributed to Britain's jeopardy and to France's downfall.

We would do well to repeat the lesson of France until we learn it by heart: France wasn't overcome by planes and tanks and guns alone. She was conquered internally by the undermining of her faith in herself—long before the invasion of Poland.

In spite of the appeasers in England, faith was too strong to suffer the same fate. Today the people of England are united in faith. They have buried their internal fears and hates. They have united against the danger of a Nazi scourge—a danger which has stirred in them a frenzy and loyalty to the cause of freedom.

I believe, in spite of the appeasers here, we are strong in faith, too. I believe that the preponderant majority of the people of America recognize the issue that faces all free peoples today. I believe that they, too, are burying their internal fears and hates, and are uniting to defend human freedom and human dignity as cornerstones of our democratic way of life.

ADDRESS BY SENATOR BURTON BEFORE AMERICAN LEGION CONVENTION

[Mr. BURTON asked and obtained leave to have printed in the RECORD an address delivered by him on September 15, 1941, before the national convention of the American Legion at Milwaukee, Wis., which appears in the Appendix.]

ARTICLE BY SENATOR REYNOLDS ON THE WEAK LINKS IN OUR DEFENSE

[Mr. REYNOLDS asked and obtained leave to have printed in the RECORD an article by him entitled "The Weak Links in Our Defense," published in the American magazine for September 1941, which appears in the Appendix.]

LIBERTY, EQUALITY, FRATERNITY—ADDRESS BY NICHOLAS MURRAY BUTLER

[Mr. WALSH asked and obtained leave to have printed in the RECORD an address entitled "Liberty, Equality, Fraternity," delivered by Nicholas Murray Butler at the Parrish Memorial Art Museum, Southampton, Long Island, August 31, 1941, which appears in the Appendix.]

COL. CHARLES A. LINDBERGH—EDITORIAL FROM ATLANTIC CITY DAILY WORLD

[Mr. SMATHERS asked and obtained leave to have printed in the RECORD an editorial entitled "An Invitation to Laughter," published in the Atlantic City Daily World, which appears in the Appendix.]

NATIONAL YOUTH ADMINISTRATION—ADDRESS BY AUBREY WILLIAMS

[Mr. SCHWARTZ asked and obtained leave to have printed in the RECORD a radio address by Aubrey Williams, Administrator of the National Youth Administration, relative to the help rendered American youth by the N. Y. A., which appears in the Appendix.]

A UNITED AMERICA—EDITORIAL FROM ST. LOUIS GLOBE-DEMOCRAT AND ILLINOIS STATE REGISTER

[Mr. LUCAS asked and obtained leave to have printed in the RECORD an editorial entitled "A United America," published in the St. Louis Globe-Democrat and the Illinois State Register, which appears in the Appendix.]

POEM BY HORACE CARLISLE

[Mr. BILBO asked and obtained leave to have printed in the RECORD a poem by Horace Carlisle entitled "Wisdom's Warning to a War-Weary World," which appears in the Appendix.]

REVENUE ACT OF 1941—CONFERENCE REPORT

Mr. GEORGE submitted the following report:

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 5417) to provide revenue, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendments numbered 39, 41, 49, 54, 56, 63, 64, 65, 79, 91, 93, 94, 111, 117, 119, 120, 121, 125, 126, 128, 130, 131, 132, 134, 135, 136, 144, 163, and 164.

That the House recede from its disagreement to the amendments of the Senate numbered 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 43, 44, 45, 46, 47, 48, 50, 51, 52, 53, 59, 61, 62, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 92, 95, 98, 99, 100, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 112, 113, 114, 115, 116, 122, 123, 127, 129, 133, 138, 139, 140, 141, 142, 146, 147, 148, 149, 150, 151, 152, 153, 154, 156, 157, 158, 159, 160, and 161; and agree to the same.

Amendment numbered 1: That the House recede from its disagreement to the amendment of the Senate numbered 1, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"Table of contents

"Title I—Individual and Corporation Income Taxes

"SEC. 101. Surtax on individuals.
"SEC. 102. Optional tax on individuals with certain gross income of $3,000 or less.
"SEC. 103. Corporation defense tax rates incorporated in rate schedules.
"SEC. 104. Surtax on corporations and termination of defense tax.
"SEC. 105. Tax on nonresident alien individuals.
"SEC. 106. Tax on foreign corporations.
"SEC. 107. Withholding of tax at source.
"SEC. 108. Treaty obligations.
"Sec. 109. Reduction in pursuance of treaties of rates of tax and withholding on nonresident alien individuals resident, in and corporations organized under laws of, Western Hemisphere countries.
"Sec. 110. Defense tax rates on personal holding companies and transfers to avoid income tax incorporated in rate schedules.
"Sec. 111. Personal exemption.
"Sec. 112. Returns of income tax.
"Sec. 113. Credit for defendents.
"Sec. 114. Noninterest-bearing obligations issued at discount.
"Sec. 115. Short-term obligations issued on a discount basis.
"Sec. 116. Information returns with respect to Federal obligations.
"Sec. 117. Extension of time of orders of Securities and Exchange Commission.
"Sec. 118. Taxable years to which amendments applicable.

"Title II—Excess Profits Tax

"Sec. 201. Excess-profits tax rates and credits.
"Sec. 202. Deductions of excess-profits tax.
"Sec. 203. New capital.
"Sec. 204. Corporations engaged in mining strategic metals.
"Sec. 205. Taxable years to which amendments applicable.

"Title III—Capital Stock Tax and Declared Value Excess-Profits Tax

"Sec. 301. Capital stock tax.
"Sec. 302. Declares value excess-profits tax—Defense tax rates incorporated in rate schedule.

"Title IV—Estate and Gift Taxes

"Sec. 401. Estate tax rates.
"Sec. 402. Gift tax rates.

"Title V—Excise Taxes

"Part I—1932 excise taxes made permanent

"Sec. 501. 1932 excise taxes made permanent.
"Sec. 502. Pipe line tax.
"Sec. 503. Technical amendment.
"Sec. 504. Bond tax.
"Sec. 505. Conveyance tax.

"Part II—Defense tax rates made permanent (no increase in tax and no change in basis of tax)

"Sec. 521. Defense excise tax rates made permanent which are not increased by this Act.

"Part III—Increases in rates of existing excise taxes

"Sec. 531. Playing cards.
"Sec. 532. Safe deposit boxes.
"Sec. 533. Distilled spirits.
"Sec. 534. Wines.
"Sec. 535. Tires and tubes.
"Sec. 536. Effective date of Part III.

"Part IV—Changes in basis of computing tax (rates increased in certain cases)

"Sec. 541. Admissions tax.
"Sec. 542. Cabaret, roof garden, etc., tax.
"Sec. 543. Club dues.
"Sec. 544. Automobile, truck, bus, and parts tax.
"Sec. 545. Radios, phonographs, records, and musical instruments.
"Sec. 546. Mechanical refrigerators.
"Sec. 547. Matches.
"Sec. 548. Telephone, telegraph, etc.
"Sec. 549. Installment, etc., payments.
"Sec. 550. Effective date of Part IV.

"Part V—New excise taxes

"Sec. 551. New manufacturers' excise taxes.
"Sec. 552. New retailers' excise taxes.
"Sec. 553. Administrative changes in manufacturers' excise tax title of Code.
"Sec. 554. Transportation of persons, etc.
"Sec. 555. Coin-operated amusement and gaming devices.
"Sec. 556. Bowling alleys, etc.
"Sec. 557. Use of motor vehicles and boats.
"Sec. 558. Effective date of Part V.

"Part VI—Processing tax on certain oils

"Sec. 561. Payment of proceeds of processing tax to Guam and American Samoa.

"Title VI—Nonessential Federal Expenditures

"Sec. 601. Nonessential Federal expenditures.

"Title VII—Credit Against Federal Unemployment Taxes

"Sec. 701. Credit against Federal unemployment taxes."

And the Senate agree to the same.

Amendment numbered 40: That the House recede from its disagreement to the amendment of the Senate numbered 40, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted

by the Senate amendment insert the following:

"Sec. 117. Extension of time of orders of Securities and Exchange Commission.

"(a) Extension: Section 373 (a) of the Internal Revenue Code (relating to the definition of orders of the Securities and Exchange Commission with respect to which Supplement R applies) is amended to read as follows:

"'(a) The term "order of the Securities and Exchange Commission" means an order (1) issued after May 28, 1938, and prior to January 1, 1943, by the Securities and Exchange Commission to effectuate the provisions of section 11 (b) of the Public Utility Holding Company Act of 1935, 49 Stat. 820 (U. S. C., Supp. V, Title 15, section 79k (b)), or (2) issued by the Commission subsequent to December 31, 1942, in which it is expressly stated that an order of the character specified in clause (1) is amended or supplemented, and (3) which has become final in accordance with law.'

"(b) Effective date of amendment: The amendment made by this section shall be applicable only with respect to taxable years beginning after December 31, 1939."

And the Senate agree to the same.

Amendment numbered 42: That the House recede from its disagreement to the amendment of the Senate numbered 42, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "118"; and the Senate agree to the same.

Amendment numbered 55: That the House recede from its disagreement to the amendment of the Senate numbered 55, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "205"; and the Senate agree to the same.

Amendment numbered 57: That the House recede from its disagreement to the amendment of the Senate numbered 57, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"(c) Returns for 1941: Section 1203 (b) (2) of the Internal Revenue Code (relating to extensions of time for filing capital-stock tax returns) is amended by inserting at the end thereof the following: 'With respect to the year ending June 30, 1941, the extension may be for not more than 90 days.'"

And the Senate agree to the same.

Amendment numbered 58: That the House recede from its disagreement to the amendment of the Senate numbered 58, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "(d)"; and the Senate agree to the same.

Amendment numbered 60: That the House recede from its disagreement to the amendment of the Senate numbered 60, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"Sec. 302. Declared value excess profits tax—defense tax rates incorporated in rate schedule.

"(a) Rates: Section 600 of the Internal Revenue Code (relating to rate of declared value excess profits tax) is amended as follows:

"(1) By striking out the heading '(a) General rule.—';

"(2) By amending the rate schedule to read as follows:

"'6⅔ per centum of such portion of its net income for such income-tax taxable year as is in excess of 10 per centum and not in excess of 15 per centum of the adjusted declared value;

"'13⅓ per centum of such portion of its net income for such income-tax taxable year as is in excess of 15 per centum of the adjusted declared value.'; and

"(3) By repealing subsection (b) (relating to defense tax for five years).

"(b) Effective date: This section shall be effective only with respect to income-tax taxable years ending after June 30, 1941."

And the Senate agree to the same.

Amendment numbered 80: That the House recede from its disagreement to the amendment of the Senate numbered 80, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "30 cents"; and the Senate agree to the same.

Amendment numbered 96: That the House recede from its disagreement to the amendment of the Senate numbered 96, and agree to the same with an amendment, as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"'(1) (A) In the case of each telephone or radio telephone message or conversation which originates within the United States, for which the charge is more than 24 cents, a tax of five cents for each 50 cents, or fraction thereof, of the charge.

"'(B) In the case of each telegraph, cable, or radio dispatch or message which originates within the United States, a tax of 10 per centum of the amount of the charge.

Only one payment of a tax imposed by subparagraph (A) or (B) shall be required notwithstanding the lines or stations of one or more persons are used in the transmission of such dispatch, message, or conversation.

"'(2) (A) A tax equivalent to 10 per centum of the amount paid for leased wire, teletypewriter, or talking circuit special service.

"'(B) A tax equivalent to 5 per centum of the amount paid for any wire and equipment service (including stock quotation and information services, burglar alarm or fire alarm service, and all other similar services, but not including service described in subparagraph (A)).'"

And the Senate agree to the same.

Amendment numbered 97: That the House recede from its disagreement to the amendment of the Senate numbered 97, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "6 per centum"; and the Senate agree to the same.

Amendment numbered 118: That the House recede from its disagreement to the amendment of the Senate numbered 118, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"'(10) Electric light bulbs and tubes: Electric light bulbs and tubes, not including articles taxable under any other provision of this subchapter, 5 per centum."

And the Senate agree to the same.

Amendment numbered 124: That the House recede from its disagreement to the amendment of the Senate numbered 124, and agree to the same with an amendment, as follows: Restore the matter proposed to be stricken out by the Senate amendment and on page 68, line 15, of the House bill before the period insert a comma and the following: "or to a fountain pen if the only parts of the pen which consist of precious metals are essential parts not used for ornamental purposes"; and the Senate agree to the same.

Amendment numbered 137: That the House recede from its disagreement to the amendment of the Senate numbered 137, and agree to the same with an amendment, as follows: On page 41, line 17, of the Senate engrossed amendments strike out "2408" and insert "2409"; on page 72, line 11, of the House bill strike out "2409" and insert "2410"; and on page 72, line 15, of the House bill strike out "2410" and insert "2411"; and the Senate agree to the same.

Amendment numbered 143: That the House recede from its disagreement to the amendment of the Senate numbered 143, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"(d) Credits, and tax free sales of automobile radios: Section 3442, section 3443 (a) (1), and section 3444 (a) (1) and (2) of the Internal Revenue Code (relating to tax in case of sale of tires to manufacturers of automobiles, etc., and credit on sale) are amended by striking out 'tires or inner tubes,' wherever appearing therein and inserting 'tires, inner tubes, or automobile radios taxable under section 3404'; and by striking out 'tire or inner tube' wherever appearing therein and inserting 'tire, inner tube, or automobile radio taxable under section 3404'. Section 3403 (e) of the Internal Revenue Code, as amended by this Act, is further amended by striking out 'tires and inner tubes' where the phrase appears the first time and inserting 'tires, inner tubes, or automobile radios'; paragraph (1) of subsection (e) of such section is amended by inserting before the semicolon 'or, in the case of automobile radios, if such radios were taxable under section 3404'; paragraph (2) of subsection (e) of such section is amended by striking out 'tires or inner tubes' wherever such phrase appears and inserting 'tires, inner tubes, or automobile radios'."

And the Senate agree to the same.

Amendment numbered 145: That the House recede from its disagreement to the amendment of the Senate numbered 145, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "October 10, 1941"; and the Senate agree to the same.

Amendment numbered 155: That the House recede from its disagreement to the amendment of the Senate numbered 155, and agree to the same with an amendment, as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following: "There are authorized to be appropriated such sums as may be necessary to enable the Secretary of the Treasury to advance from time to time to the Postmaster General such sums as the Postmaster General may show shall be required for the expenses of the Post Office Department in performing in the District of Columbia and elsewhere all services required by this section." And the Senate agree to the same.

Amendment numbered 162: That the House recede from its disagreement to the amendment of the Senate numbered 162, and agree to the same with an amendment, as follows: On page 51, lines 8 and 9 of the Senate engrossed amendments strike out "and miscellaneous amendments"; and the Senate agree to the same.

WALTER F. GEORGE,
DAVID I. WALSH,
ALBEN W. BARKLEY,
ARTHUR CAPPER,
JAMES J. DAVIS,
Managers on the part of the Senate.

R. L. DOUGHTON,
THOS. H. CULLEN,
JERE COOPER,
JOHN W. BOEHNE, Jr.,
ALLEN T. TREADWAY,
HAROLD KNUTSON,
DANIEL A. REED,
Managers on the part of the House.

Mr. GEORGE. I ask unanimous consent for the present consideration of the conference report.

Mr. McNARY. Mr. President, the first request is made for unanimous consent for the consideration of the report; I have no objection to that, but, before it is considered, I should like to have a full explanation from the able Senator in charge of the report.

Mr. GEORGE. I will be very glad to explain the report.

The VICE PRESIDENT. Is there objection to the present consideration of the conference report?

There being no objection, the Senate proceeded to consider the report.

Mr. McNARY. Mr. President, in view of the unusual importance of the report, I think we should have a quorum present. I suggest the absence of a quorum.

The VICE PRESIDENT. The clerk will call the roll.

The Chief Clerk called the roll, and the following Senators answered to their names:

Andrews	Hayden	Reynolds
Ball	Herring	Rosier
Barbour	Hill	Schwartz
Barkley	Hughes	Smathers
Bilbo	Johnson, Colo.	Smith
Bulow	Kilgore	Spencer
Burton	La Follette	Thomas, Okla.
Byrd	Lucas	Thomas, Utah
Capper	McCarran	Tobey
Caraway	McFarland	Tunnell
Clark, Idaho	McKellar	Tydings
Davis	McNary	Vandenberg
Downey	Maloney	Van Nuys
Eastland	Murray	Wallgren
George	O'Mahoney	Walsh
Gillette	Overton	White
Guffey	Peace	Wiley
Gurney	Pepper	
Hatch	Radcliffe	

Mr. McNARY. The Senator from Vermont [Mr. AIKEN], the Senator from Vermont [Mr. AUSTIN], the Senator from Maine [Mr. BREWSTER], the Senator from Illinois [Mr. BROOKS], the Senator from Nebraska [Mr. BUTLER], the Senator from Connecticut [Mr. DANAHER], the Senator from Oregon [Mr. HOLMAN], the Senator from North Dakota [Mr. LANGER], the Senator from Massachusetts [Mr. LODGE], the Senator from North Dakota [Mr. NYE], the Senator from Kansas [Mr. REED], the Senator from Minnesota [Mr. SHIPSTEAD], the Senator from Ohio [Mr. TAFT], the Senator from Idaho [Mr. THOMAS], and the Senator from Indiana [Mr. WILLIS] are necessarily absent.

The VICE PRESIDENT. Fifty-five Senators have answered to their names. A quorum is present.

Mr. GEORGE. Mr. President, the conference report on the tax bill has been approved by the House, and is now before the Senate. I think it is important that the principal changes made in the bill by the conference committee be noted.

The total yield under the Senate bill would have been $3,541,200,000. Under the conference agreement the total yield is expected to be $3,553,400,000. Under the House bill the total yield would have been $3,216,400,000. The principal amendment made by the Senate to bring the House bill over $3,500,000,000 was the one lowering the exemptions to $750 in the case of a single person and $1,500 in the case of a married person. This amendment is estimated to yield additional revenue of $303,700,000, of which $47,000,000 will come from new taxpayers and $256,000,000 from the old taxpayers. Only $10,000,000 of this total is expected to come from taxpayers who for the first time will be required to make returns. The House conferees accepted this amendment without change. The House conferees also accepted the Senate amendment permitting taxpayers with incomes of $3,000 or less from wages, salaries, royalties, and so forth, to compute their tax by a simplified method and on a simplified form.

The Senate amendment which eliminated the 10-percent pentalty on corporations using the invested-capital method which had low earnings in the base period was also agreed to by the House conferees.

The Senate amendments integrating the defense tax with the basic tax and the amendment increasing the surtax on corporations were also agreed to by the House conferees.

With respect to the admissions tax, there were concessions on both sides. The House conferees agreed to the Senate amendments which eliminated exemptions for admissions under 10 cents except with respect to children under 12 years of age. We were forced to recede from the Senate provision permitting children under 18 years of age to pay the admissions tax on the price actually charged for their admission instead of upon the established price when the admission charged was 10 cents or more.

We were also compelled to recede with respect to the Senate amendments restoring the exemptions provided under existing law for religious, educational, or charitable entertainments, agricultural fairs, concerts conducted by certain civic or community membership associations, and admissions to entertainments conducted by public or parochial elementary or high schools.

These exemptions, which were restored by the Senate, with the one added amendment to which reference was last made, the House conferees definitely opposed; and, as a result, the amendments were eliminated.

The House conferees agreed to the Senate amendment taxing brandy at the $4 rate applied to other distilled spirits, with corresponding increase in the floor stocks tax on brandy.

So far as the tax on wines and cordials is concerned, a compromise was agreed to. Under the compromise agreement we accepted the House rate of 8 cents on still wines containing not more than 14 percent of absolute alcohol. On still wines containing more than 14 percent and not exceeding 21 percent of alcohol, the rate under the House bill was 24 cents and under the Senate bill was 35 cents a gallon. The conference agreement fixed this rate at 30 cents. The House agreed to the Senate rate of 65 cents with respect to still wines containing more than 21 percent and not exceeding 24 percent of alcohol.

The House conferees agreed to the Senate rates on artificially carbonated wines and on liqueurs, cordials, and similar compounds.

The House conferees agreed to the Senate amendments eliminating the billboard tax, the tax on radio broadcasting, and the tax on soft drinks.

The Senate amendments with respect to telephone, telegraph, and cable dispatches, and so forth, were agreed to with the following exceptions:

The exemption under the Senate bill of burglar or fire-alarm service from the 5 percent tax with respect to amounts paid for wire and equipment service was eliminated. The tax on local telephone bills which was fixed under the Senate amendment at 10 percent was reduced to 6 percent.

We were forced to recede on the Senate amendment exempting from the sporting goods tax artificial lures, baits, and flies.

So far as washing machines are concerned, we were compelled to accept the provisions of the House bill taxing only washing machines of the kind used in commercial laundries. The Senate amendment applied the tax to all washing machines.

Under the conference agreement, the manufacturers' excise tax on electric light bulbs was reduced from 10 percent to 5 percent. The House conferees agreed to the Senate amendment extending the tax on electrical appliances to include gas or oil water heaters and gas or oil appliances used for cooking, warming, and so forth.

So far as the jewelry tax is concerned, we were unable to get the House conferees to agree to a tax on the manufacturer. The agreement restores the retail tax contained in the House bill but carried with it an amendment containing the exemption of the Senate amendment as to fountain pens if the only parts of the pen which consist of precious metals are points or other essential parts not used for ornamental purposes.

In regard to the cosmetics tax, the Senate amendment eliminated the necessity of requiring beauty parlors and barber shops to keep records, was adopted. Under this amendment, sales of toilet preparations to such establishments were treated as sales at retail instead of the use of such preparations by such establishments being treated as sales at retail.

The Senate amendment which prohibited under penalty the making of any statement, written or oral, in advertisement or otherwise intended or calculated to lead any person to believe that the price does not include the tax was agreed to.

The Senate amendments as to pinball and other gaming or amusement machines were agreed to. This was also true with respect to the Senate amendment reducing the tax on the operation of a bowling alley, billiard table, or pool table from $15 to $10.

The House conferees also agreed to the Senate amendment exempting soldiers and sailors from the transportation tax.

We were forced to recede on the Senate amendment permitting an annual declaration of the capital-stock tax, but did retain the Senate amendment granting an additional extension of 30 days for the filing of the capital-stock tax return for the fiscal year ended June 30, 1941.

We were forced to recede on the Senate amendment providing for a differential in the case of nonbeverage alcohol. The Treasury objected to this amendment on the ground that it would entail a great

administrative burden on and expense to the Treasury.

The Senate amendment eliminating the retroactive tax with respect to taxes on installments was agreed to, as well as the Senate amendment providing a refund of the tax on motion-picture films used or resold for use in the making of news-reel motion-picture films.

The Senate amendment allowing a taxpayer further time within which to make payments into an unemployment fund under a State law and obtain credit against Federal unemployment tax for 1936, 1937, 1938, 1939, and 1940 was agreed to by the House conferees.

The Senate amendment, exempting from the tax or use of boats, boats used exclusively for trade, and so forth, was agreed to. This was also true with respect to the exemption of boats used by the Sea Scouts Department of the Boy Scouts of America.

The conferees were sympathetic with the purpose of the amendment offered by the Senator from Connecticut [Mr. DANAHER] relating to appropriations available to the Social Security Board for grants to the States for unemployment-compensation administration. However, due to the difficulties in working out a suitable provision, action on the merits was deferred with the understanding that it would be considered in a later bill.

The Senate amendment establishing a committee to investigate nonessential Federal expenditures was agreed to.

The Senate amendment providing that taxes collected with respect to the processing of coconut oil originating in Guam or American Samoa shall be held as separate funds and paid to their treasuries was agreed to.

Mr. President, with respect to the amendment of the Senate which restored the exemption from the payment of excess-profits taxes by the producers of certain strategic metals, the Senate conferees were compelled to recede, and in that respect the conference report is identical with the bill as it originally passed the House.

On this question I may say that the Senate conferees insisted, on each day of the conference, upon the acceptance of the amendment, for reasons which are very well known to all Senators who are interested in the question. Even on the last day of the conference, on Monday of this week, the question was again reopened for discussion, but the Senate conferees were unable to persuade the House conferees to accept the amendment. So the strategic metals, seven in number, which were exempted in the Excess Profits Tax Act of 1940, are now subject to the excess-profits tax.

Mr. HAYDEN. Mr. President, will the Senator yield?

Mr. GEORGE. I will yield in a moment. I may say further that the House conferees, at least some of them, insisted very strongly that whatever profits were made by the producers of the seven strategic metals, or any of them, would accrue from defense contracts with the Government itself, and for that reason, among others, they very strongly insisted that the producers of strategic metals should be subject to the excess-profits tax, as are other corporate producers.

I yield to the Senator.

Mr. HAYDEN. The inquiry I should like to make is whether the attitude of the House conferees was supported by the Treasury. We had hoped we had persuaded the Treasury that the need for these metals was so great, particularly upon representations made by the Office of Production Management, that their production should be encouraged. There was the further fact that, by reason of the exemption heretofore granted, there were those who had expended money on mines and plants and production, and it seemed bad faith to remove the exemption.

Mr. GEORGE. The Senate conferees presented all those arguments, and the Senate conferees as a whole believed very strongly in the merits of the amendment. The Treasury resisted it, and objected to it, largely upon the ground that exceptions always give rise to certain trouble in administration, and upon the general ground that exceptions to liability for excess-profits taxes could not be justified in any case. That was the broad position taken by the Treasury.

I shall be through with the formal statement after calling attention to certain administrative amendments which were considered by the Senate and which were inserted in the bill in the Senate.

It will be recalled that at the time these several amendments were offered the committee strongly insisted that, since the House had not considered administrative or technical amendments, and since the House conferees themselves, as well as other members of the House Ways and Means Committee, would be embarrassed if administrative amendments were put into the bill and agreed to by the House conferees, it was inadvisable to offer them.

It may be appropriate for me to comment specially on the so-called administrative amendments with respect to which the Senate conferees receded. These amendments are amendments numbered 39, 41, 57, 63, 64, and 164. The House and Senate conferees were in general agreement on the policy of these amendments. It was finally agreed, however, that the subject matter thereof, insofar as legislation is necessary, might better be considered in connection with the administrative bill next month, or the month thereafter.

Amendment No. 39, dealing with alimony and separate maintenance payments, provided that periodical payments of alimony or for separate maintenance should be included in the gross income of the recipient and deducted from the gross income of the payer. Likewise, the amendment provided that alimony and separate maintenance trust income should be taxed to the beneficiary rather than to the grantor. The amendment was recommended to the Senate by the Finance Committee, and I believe, is sound in policy. I trust that it will receive favorable consideration later.

Amendment No. 41 was intended to allow deductions for expenditures in connection with the protection of investments and the production of income, regardless of whether they relate to the taxpayer's trade or business. According to the Supreme Court's decision in *Higgins* v. *Commissioner* (312 U. S. 212), these expenditures are not deductible under present law. The conference committee and the Treasury experts, as I understand them, were in agreement that the law should be amended to permit the deduction of these and similar expenditures.

Amendment No. 57, providing for an annual redeclaration of value for capital stock tax purposes, is unquestionably a desirable provision. The taxpayer should not, in these times at least, be required to guess on future earnings for more than a year ahead. I hope the provision will be included in the next bill. The Senate provision granting authority to extend for an additional 30 days the time for filing returns for the current year was agreed to.

Amendment No. 64 added a new sentence to section 812 (d) of the Internal Revenue Code relating to the deduction of charitable bequests for estate-tax purposes. It provided that the deduction shall include amounts passing under a charitable bequest as the result of a renunciation of some other specific bequest by another beneficiary, regardless of the date of the decedent's death. When the amendment was introduced on the Senate floor, the senior Senator from North Carolina [Mr. BAILEY], who offered the amendment, and I recognized that it probably was merely declaratory of existing law. The Treasury representatives agree, as I understand their position, that section 812 (d) of the present law clearly covers a case in which a simple bequest, involving no power of appointment in the beneficiary, has been validly renounced by the beneficiary, with the result that the property falls into the residuary estate which is transferred to charity under the will. However, as indicated in the statement of the managers on the part of the House, the Treasury officials felt that further consideration would be required in order to determine the necessity for and the propriety of additional legislation to cover a case in which the beneficiary possesses a power of appointment, which, in effect is exercised through his renunciation; or a case in which the renunciation has been delayed for such a period of time that it is ineffective under the applicable State law, with the result that under the State law the bequest is deemed to have vested in the beneficiary prior to his renunciation. I personally doubt the wisdom of covering these two classes of cases under section 812 (d). Inasmuch as the simple case of a legacy which has been validly renounced under State law is apparently within the section, it is questionable whether further legislation should be considered.

Amendment No. 164 added a clarifying sentence to section 401 of the Second Revenue Act of 1940 which suspends the profit-limiting provisions of the Vinson Act in respect of contracts completed after the beginning of the taxpayer's first excess-profits-tax year. The amendment provided that, for the purposes of section 401, a contract shall be deemed to be completed on the date on which

final delivery and acceptance is made. Although there was some discussion in conference as to the determination under section 401 of the date on which a contract is completed, it is obvious that a contract is not completed so long as some part of the work called for by the contract remains to be done, even though there has been delivery and preliminary acceptance. The earliest date on which a contract could be considered to be completed, within the meaning of section 401, is the date on which all the work called for by the contract is completed. The action of the Senate and the Congress in the enactment of the Vinson Act and of section 401 certainly forecloses the use of an earlier date. By reason of probable difficulties in some cases in determining this date, however, it may be that a later date, such as the termination of the guaranty period, or the date of final acceptance by the Government, or perhaps a special date, must be fixed, such as the date of final settlement with the contractor, in those cases in which he does not complete the work. It would seem that a proper interpretation of the present law should be agreed upon by the administrative officials. Unless the question is settled satisfactorily by administrative action, however, a clarifying amendment along the lines of amendment No. 164, included in the administrative bill, may become necessary and will be in order in the administrative bill.

I should add that with respect to this amendment the Treasury itself did not express vital concern. Under existing law the burden largely rests upon the heads of other departments of the Government.

Mr. President, if any Senator has any questions to ask, I shall be pleased to answer them if I can.

Mr. LUCAS. Mr. President, will the Senator yield for a question?

Mr. GEORGE. I yield.

Mr. LUCAS. I have attempted to follow the Senator in the course of his remarks on the bill. In my section of the country there seems to be a considerable amount of confusion on the question of the floor-stock tax upon jewelry. I wonder what the conferees did with regard to that question.

Mr. GEORGE. The floor-stock tax on jewelry was eliminated. The Senate conferees receded from the amendment offered by the distinguished Senator from North Carolina [Mr. BAILEY] fixing a 15-percent manufacturers' tax on jewelry. The House provision for a 10-percent retail tax was restored and the floor-stock tax was eliminated.

Mr. TYDINGS. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. TYDINGS. What was the situation with reference to the exemption of alcohol used in food and drugs?

Mr. GEORGE. Nonbeverage alcohol?

Mr. TYDINGS. Nonbeverage alcohol.

Mr. GEORGE. I do not know whether the Senator was present during the early part of my statement.

Mr. TYDINGS. I was not.

Mr. GEORGE. I stated that the Senate conferees as a whole believed that the amendment was meritorious, and strongly insisted upon its adoption by the conference. The House conferees were opposed to it. The Treasury was pronounced in its opposition to the amendment because of greatly increased administrative difficulties and costs.

I may say to the Senator that I personally regretted the disagreement of the House conferees to this amendment on nonbeverage alcohol, the strategic minerals amendment, and the amendment giving corporations the right to declare an annual capital-stock value.

Mr. TYDINGS. Mr. President, will the Senator yield?

Mr. GEORGE. Yes; I shall be glad to yield.

Mr. TYDINGS. As I pointed out on the floor of the Senate when the amendment was adopted, on $1,200 worth of nonbeverage alcohol the tax is $21,000 under the old law—$21,000 on $1,200 worth of alcohol. As the law now stands, of course, the tax will be increased to about $28,000 on $1,200 worth of nonbeverage alcohol. I do not think we need any enlargement on that statement as to the merit of the amendment; and I only bring it up again in the hope that when the new tax bill is introduced, as I understand one probably will be in the not-far-distant future, the Senator will use his good offices in line with what has been said, and will try to bring relief to an industry that is taxed about eight times the cost of the material it needs.

Mr. GEORGE. I agree with the Senator. In other countries, so far as I have been informed, alcohol used for the purpose of preserving foods and for the purpose of making and preserving drugs is treated differently from beverage alcohol. The Senate Finance Committee and the Senate conferees were strongly of the view that the provisions inserted in the amendment itself, which provided for a refund of the difference between the $4 rate under the bill and the $3 rate imposed by existing law, were sufficient to obviate the administrative difficulties and the great expense which the Treasury experts assured us would be incurred if the amendment remained in the bill. By requiring the taxpayer to pay the tax and then secure relief by way of a claim for refund, the necessity for an elaborate permit procedure to prevent avoidance of the tax was, in our opinion, eliminated. But the House conferees refused to accept this amendment.

Mr. McCARRAN. Mr. President, I desire to address myself very briefly to one item of the conference report; namely, strategic metals, as that subject was dealt with in amendment numbered 54 on page 49 of the bill.

It seems to me exceedingly unfortunate that the amendment which the senior Senator from Nevada offered, and which was adopted by the Committee on Finance and by the Senate, striking out the language of the House bill with regard to excess-profits tax on strategic metals, should not have been retained in the bill. The elimination of the amendment from the bill sets up an unhappy situation in this country. Today we are striving to encourage the discovery and development of metals and minerals essential to national defense. With that in mind, the 1940 tax act carried provisions for exempting from excess-profits tax mines and mining of seven strategic metals and minerals; namely, tungsten, quicksilver, manganese, platinum, antimony, chrome, and tin.

It is rather interesting to note what States are affected by the exemption from excess-profits tax of the mining of these strategic metals. For the benefit of the Senate, let me say that the States of Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, South Dakota, Utah, Washington, Wyoming, Alabama, Arkansas, Georgia, Minnesota, North Carolina, Pennsylvania, South Carolina, Tennessee, Texas, and Virginia all are affected, because in the States named strategic metals are found and mined.

In that regard, let me say that tungsten, one of the strategic metals, is found in Arizona, California, Colorado, Idaho, Montana, Nevada, Utah, Washington, and Wyoming.

Quicksilver is found in California, Idaho, Nevada, Oregon, South Dakota, Arkansas, and Texas.

Manganese is found in California, Colorado, Idaho, Montana, New Mexico, Utah, Washington, Alabama, Arkansas, Georgia, Minnesota, North Carolina, South Carolina, Tennessee, Texas, and Virginia.

Platinum is found in California and New Mexico.

Antimony is found in California, Colorado, Montana, and Washington.

Chrome is found in California, Oregon, Wyoming, and Pennsylvania.

Tin is found in Montana, New Mexico, and South Dakota.

I mention the fact that these States are vitally affected in leading up to this thought: We are today trying to encourage, as best we can, the discovery and development of these all-essential metals in the United States because at the present time we are importing about $20,000,000 worth or more of these metals from India, from Russia, from Brazil, from Cuba, and from other countries of the world. We have tried to find in this country sufficient of these all-essential metals to afford proper relief and proper security for our national defense. With that in mind, it has been said by way of argument that the money paid out for these metals is paid out by the Government in any event, and therefore is a profit; but let me say to the Senate that there is no more hazardous industry in the world than the industry of mining. No one can look with any degree of certainty into great depths in the earth; vast sums of money may be necessary to develop a mine, and perhaps after the development is completed the mine itself proves nonprofitable. Only about 1 mine out of every 20 involving discovery of strategic metals makes good. So the hazard of venturing private investment in mining, especially mining of strategic metals, is ever-attendant, and very great.

The result of the action of the conferees, I am afraid, will be most unfortunate. In 1940 we provided encouragement to the miners of strategic metals;

and they, believing we had established a permanent policy, went forward and made vast investments. They not only did that, but prospectors went out into the field and made discoveries and developments, and having made such discoveries and developments they thought there was a basic policy on which they could go forward. I am sorry to say that now, by this act, we have destroyed the encouragement we offered to the prospector and investor, and today they do not know exactly where they stand. Nevertheless, the country is making continuous demands upon them for the discovery and production of these all-essential metals.

Let me say to the Senate, by way of example, that 12 pounds of manganese are required for the proper treatment of 1 ton of iron ore to make steel. Twelve pounds of manganese are essential for 1 ton of steel in the steel industry. We are demanding steel every day, and the treatment of steel by the use of manganese is all essential. Manganese is an essential strategic metal, listed as one of the seven metals that would be exempt from excess-profits tax. The industry itself will suffer a severe blow, because we are importing these metals from countries in which peon and slave labor is resorted to for their production, while, if we had removed the excess-profits tax from the industry, we would have given greater employment to American miners and preserved the American standard of living.

It is to be regretted that the conference committee did not see fit to adopt this amendment. It is to be regretted that the Treasury was adamant against the amendment which the Senate adopted. I take occasion now to express my gratitude to the able chairman of the Committee on Finance of the Senate, who kept his promise given to us at the time we adopted the 1940 Tax Act, and to the Senator from Massachusetts [Mr. WALSH] and the other conferees on the part of the Senate, all of whom have worked zealously to retain the Senate amendment. I regret the attitude of the Treasury in being adamant against this amendment, and I regret exceedingly that the amendment was not retained because its rejection will constitute a serious blow to the national defense if we rely on these strategic metals for national defense, as we naturally do.

Mr. LA FOLLETTE. Mr. President, on Friday, September 5, when the tax bill was under consideration in the Senate, I stated fully my fundamental objections to the pending measure. The conference report, in all its essential particulars, accepts the Senate bill, and, therefore, so far as I am personally concerned, those issues having been threshed out when the bill was under consideration by the Senate, I see no point in making any further effort of resistance against the conference report, and, so far as I am personally concerned, I shall not ask or insist upon a roll call, as I so informed the distinguished majority leader a day or two ago.

I should like to have inserted in the RECORD at this point as a part of my remarks, a letter which I have received upon the general theories of the tax bill from Mr. J. G. Luhrsen, executive secretary-treasurer of the Railway Labor Executives' Association.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

RAILWAY LABOR EXECUTIVES' ASSOCIATION,
Washington, D. C., September 16, 1941.

Hon. ROBERT M. LA FOLLETTE,
Senate Office Building,
Washington, D. C.

DEAR SIR: This communication is directed to the present tax bill now before the Congress for final consideration and action.

Reasonable thinking men—and we believe the chief executives, members of the Railway Labor Executives' Association, are composed of such men—realize and appreciate that people cannot all be of equal wealth nor possessed of equality so far as the development of all faculties is concerned; but that does not imply that there is a yielding to rank discrimination. Our association endorses the principle that every man or woman claiming citizenship and being a part of this wonderful Nation should be made tax conscious and contribute even though ever so meager to bring about the realization that this is the best country in the world in which to live.

However, the present tax bill as reported for consideration bears all earmarks of the creation of dissension and dissatisfaction because it ekes with discrimination favoring the wealthy and imposing an unjust share upon the middle classes.

The memberships of each one of the respective organizations, members of the Railway Labor Executives' Association, are conscious of the necessity of taxation for the preservation of the Nation and equally so are giving their support to the purchase of national-defense savings bonds, and we believe that this same principle holds true with labor generally throughout the Nation. It becomes necessary, however, to point out the fact that there is a realization of the present increased taxation being but a stepping stone to further increased taxation in future years. It is necessary, therefore, to guard against steps being taken now which enhance further dissatisfaction and dissension, and whatever tax legislation may at this time be concurred in should be upon a fundamental and sound basis upon the ability to pay without discrimination or favoritism.

* * * * *

Now we come to the present tax bill, identified as H. R. 5417, and the provisions thereof are again without argument to the contrary discriminatory, favoring the wealthy and depriving the middle classes and particularly those in the lower income brackets.

The present tax bill, H. R. 5417, now before the conference committee should, if the smaller income group is not to be discriminated against, definitely provide for the restoration not only of the $2,000 for the married class and $800 for the single class, but it should restore the exemptions to $2,500 for married persons and $1,000 for single persons.

In connection with this provision which might be the means of paying no tax whatsoever, there is the possibility of providing for a minimum amount of tax so that few will escape from contributing to the Nation's upkeep by taxation.

The viciousness of the reduction in exemptions is exemplified by the following illustration: Under the existing law, the $2,000 personal exemption results in a tax savings of only $80 (4 percent of $2,000) to a married man with an income of $2,500. However, to a man in the top bracket, it results in a tax saving of $1,620 (81 percent of $2,000). The wealthy taxpayer having ability to pay thereby secures from the exemption a much greater reduction in actual taxes than those in the lower income brackets. Such inequity is unsound and detrimental to the morale of those affected by this rank discrimination.

The removal of the mandatory joint return provision as originally contributed by the House committee is a material backward step and the provisions should be restored instead of eliminating the provision permitting the wealthy to transfer their properties to their wives, reporting separate incomes, and thereby materially reducing the surtaxes. It is the vast majority of the lower paid men who must serve the Nation in both Army and Navy defense at a material reduction of their ordinary income. Their losses will range anywhere from $50 to $150 or more per month by not being able to follow their vocation which, therefore, represents a direct contribution on their part for the protection of the Government.

Not satisfied with that most liberal contribution, the present tax bill aims the same unreasonable and unjust taxation upon the lower-income group who are still able to follow their vocation. Many examples and illustrations can be cited, but only a few are necessary to prove the rightful objections on the part of this lower-income group. For example, the new tax bill imposes a heavier tax on a $100-a-month wage earner than a wealthy man has to pay on a $41,000 estate or gift. A single man or woman earning more than $14.42 a week will be compelled to file income-tax returns, although this is less by $1.57 than the minimum wage for a 40-hour week under the Fair Labor Standards Act. An unmarried person will pay a tax of $59 on $1,500, against $24.20 under the present law, and if the income reaches $2,000 the tax will be $117, against $44 under the present law and $110 under the House bill.

Similarly, a married man with an income of $1,500 up to $5,000 has his taxes raised three and one-half or four times more than under the present law. The small percentage increase on incomes over $500,000 up to $5,000,000 is insignificant when one considers the amount remaining for the individual as compared with the amount remaining for the individual with incomes between $1,500 and $5,000 annually.

The House bill, which levied a 10-percent tax on corporations whose profits exceeded those of the years of 1936 to 1939, inclusive, and subsequently deleted, together with a provision permitting corporations which pay excess-profit taxes to be exempt from income by computing normal taxes, as well as other changes, are enormous concessions to the wealthy individuals and corporations.

When the joint-income-return provision was incorporated, which produced more than $300,000,000 in taxes over and above what would be collected when permitting single tax returns, objectors saw fit to now pass that tax onto the smaller-income group by devious and ulterior means.

No consideration seems to be given to the increased cost of living and the effect it has upon those with smaller incomes, nor is there any evidence that consideration is given to the many indirect taxes, including sales taxes in effect in many States, from which there is no escape by the lower-income group. In other words, there is no possible avenue left open for the lower-income group to take advantage of the condition as it affects them based upon their meager income while every possible avenue is thrown open to those of the larger-income group through technical and legal interpretations to which they are able to and will resort.

Among the labor group on the railroads but very few, if any, will exceed $3,600, but the average is much less than one-half of that amount, and each and every one of these railroad employees, together with labor in other industries, are having imposed upon them an unjustifiable tax when a fair and reasonable comparison is made with those of the higher incomes.

We trust that until these discriminations and injustices are eliminated or corrected the bill will not pass until amended to more properly balance the tax legislation so that all will more equally share the burden of the obligations of this Government. We do not object, but, to the contrary, believe it to be the policy of wisdom if everyone who earns his livelihood in this great Nation of ours is made tax conscious by compelling some contribution toward taxes, and we also encourage the early passage of a tax bill. We do, however, believe that even though some small delay may be encountered, it should not stand in the way of bringing about a fair and just tax bill, where the ability to pay should be given greater weight than as now represented in the pending tax legislation.

The biggest and best asset this Nation can have must direct itself to wholehearted unity upon national questions. The tax issue is a national question, and it must be fair and just to all if national unity is to be enhanced, perpetuated, and safeguarded.

Who is there able to convince the one-third ill-fed, ill-clad, and ill-housed that Madison's prophetic warning is not in action today when he declared:

"We are free today substantially, but the day will come when our Republic will be an impossibility. It will be an impossibility because wealth will be concentrated in the hands of a few. A republic cannot stand upon bayonets, and when that day comes, when the wealth of the Nation will be in the hands of a few, then we must rely upon wisdom of the best elements in the country to adjust the laws of the Nation to the changed conditions."

The greatest exponent of our Constitution and our Union, Daniel Webster, spoke this principle:

"The freest government, if it could exist, would not be long acceptable if the tendencies of the law were to create a rapid accumulation of property in few hands and to render the great mass of the population dependent. Universal suffrage, for example, could not long exist in a community where there was a great inequality of property. In the nature of things, those who have not property, and see their neighbors possess much more than they think them to need, cannot be favorable to laws made for the protection of property."

The conditions predicted are at hand and certainly to further safeguard such conditions by favoring the wealthy and denying the poor or middle class by imposing unfair tax burdens cannot and will not be a credit to this great Nation of ours.

We respectfully request your earnest and favorable consideration of our request when your voice is recorded.

Yours very truly,

J. G. LUHRSEN,
Executive Secretary.

Mr. THOMAS of Utah. Mr. President, I desire to concur in all the Senator from Nevada [Mr. MCCARRAN] and the Senator from Georgia [Mr. GEORGE] have said in regard to strategic materials exemptions.

I wish to speak not as a Senator who comes from a mining State but as the chairman of the subcommittee which during the last 4 or 5 years has handled measures relating to strategic materials. I wish to say as to the national policy that when the Federal Government decides upon a policy, I cannot understand how a department of the Government can take steps to try to defeat the policy. That strikes me as something pretty close to anarchy.

The Government has, for a number of years, appropriated money to discover new sources of seven strategic materials, to increase their production, and to make us, if possible, independent of outside sources of supply. That act has been on the statute books for 3 years, and now when we face an emergency we find such things as silk listed as a critical and strategic material. Everyone conversant with international economics knows that within the last few years one country has gained control at least of the exportation of silk, if not of the production of silk. No effort has been made to produce a stock pile of silk, which is an extremely essential material. I am using that as an illustration.

In regard to strategic materials and in regard to the effect of taxing that which we are paying to have brought forth from the earth, and to emphasize again how the Government can be eternally against itself by having some one department willfully and purposely stand out against a policy the Federal Government has declared by law, let me point out the fact that there is a division in the Office of Production Management that is studying, with all its might and main, how to get materials without using ship bottoms because of the scarcity of ships. No one can conceive of a more bulky cargo than ore; in fact, it is used as ballast in ordinary times; and at this moment, when a division of the Government is trying to discover domestic sources of strategic materials so that it will not be necessary to resort to a means of transportation of which there is a scarcity, not only to take care of national-defense needs but those of ordinary industrial life, the Government is discouraging their discovery, though, strange to relate, such materials from what in ordinary times are considered strip mines or uneconomic mines are actually being produced for our Government. In other words, the policy of the Government itself has been proved to be effective, and now one branch of the Government steps in and tries to break down what has been declared to be the policy of the Government.

The opposition to the Senate amendment has come from just one source, and that source, Mr. President, may I say, is one of the administrators of the strategic materials act. I cannot help but repeat that it is beyond my understanding of what should constitute good government to have this sort of thing going on during these perilous times.

Mr. HATCH. Mr. President, will the Senator yield?

Mr. THOMAS of Utah. I am glad to yield.

Mr. HATCH. Does the Senator know what are the grounds of the opposition of the particular department he mentions?

Mr. THOMAS of Utah. As I understand, the opposition is based on the fact that the provision would be difficult to administer and that it would compel the Treasury to make distinctions, and they do not want to make distinctions. Mr. President, the tax bill, from start to finish, is a bill which has to do with distinctions. There are distinctions as to the amount of income. The argument is so fallacious, so invalid, and so in keeping with the narrow mind of some administrator, that it cannot be defended on any score.

Mr. DAVIS. Mr. President, the tax bill the conference report on which the Senate is now considering reaches down to the very heart of the economic life of our people. It places a heavy burden on large numbers of persons who are already staggering under a load which they cannot bear at a time when prices are rising, and when defense prosperity has reached only a fractional part of the population.

As a member of the conference committee, I voted to carry out the will of the Senate. My vote has very little to do with my individual views, and leaves unsaid much that I would say if I were acting in an individual capacity.

I wish to urge now, as in the past, that some definite action be taken to develop an orderly system of taxation in this country, rather than a constant resort to patchwork measures.

The VICE PRESIDENT. The question is on agreeing to the conference report.

The report was agreed to.

TREATMENT OF ITALIANS HELD AT ELLIS ISLAND, N. Y.

Mr. DAVIS. Mr. President, I ask unanimous consent to place in the RECORD a statement in connection with a dispatch from Rome, Italy, to the New York Times, telling of the treatment of Italians who were held at Ellis Island. Mr. Generoso Pope, publisher of Il Progresso Italo-Americano, immediately investigated the situation in order to clarify the matter so that the Italians and Americans of Italian origin residing in this country would not be misled by false foreign propaganda.

After a thorough investigation, it was proved that the statements were utterly untrue. Mr. Pope immediately sent a reporter to Fort Missoula, Mont., to secure first-hand information regarding the Italians who are detained there. A number of articles and pictures have been published in Mr. Pope's newspapers depicting the daily routine of the camp, and this has assured many persons that their relatives and friends who are there are well cared for.

Mr. Pope, who came to this country when a small boy, is ever grateful for the opportunities afforded him; and he has endeavored through the columns of his newspapers to promote American ideals and the principles of this democracy, which he has cherished very dearly. Through this medium he has rendered a real service that will promote unity not only among his readers but among all people of this land.

On Sunday, August 17, 1941, an editorial entitled "For a Clear Understanding," appeared in Il Progresso Italo-Americano. This editorial brings out very forcefully the patriotism and loyalty to this great democracy of Americans of Italian extraction; and in it Mr. Pope reiterates his strong conviction that there is no place for foreign propaganda that would confuse and seek to divide our people. I ask unanimous consent to have the editorial which I have just called to the attention of the Senate incorpo-

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[PUBLIC LAW 250—77TH CONGRESS]
[CHAPTER 412—1ST SESSION]
[H. R. 5417]

AN ACT

To provide revenue, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act, divided into titles and sections according to the following Table of Contents, may be cited as the "Revenue Act of 1941":

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Sec. 701. Credit against Federal unemployment taxes.

TITLE I—INDIVIDUAL AND CORPORATION INCOME TAXES

SEC. 101. SURTAX ON INDIVIDUALS.

Section 12 (b) of the Internal Revenue Code is amended to read as follows:

"(b) RATES OF SURTAX.—There shall be levied, collected, and paid for each taxable year upon the surtax net income of every individual the surtax shown in the following table:

"If the surtax net income is:	The surtax shall be:
Not over $2,000	6% of the surtax net income.
Over $2,000 but not over $4,000	$120, plus 9% of excess over $2,000.
Over $4,000 but not over $6,000	$300, plus 13% of excess over $4,000.
Over $6,000 but not over $8,000	$560, plus 17% of excess over $6,000.
Over $8,000 but not over $10,000	$900, plus 21% of excess over $8,000.
Over $10,000 but not over $12,000	$1,320, plus 25% of excess over $10,000.
Over $12,000 but not over $14,000	$1,820, plus 29% of excess over $12,000.
Over $14,000 but not over $16,000	$2,400, plus 32% of excess over $14,000.
Over $16,000 but not over $18,000	$3,040, plus 35% of excess over $16,000.
Over $18,000 but not over $20,000	$3,740, plus 38% of excess over $18,000.
Over $20,000 but not over $22,000	$4,500, plus 41% of excess over $20,000.
Over $22,000 but not over $26,000	$5,320, plus 44% of excess over $22,000.
Over $26,000 but not over $32,000	$7,080, plus 47% of excess over $26,000.
Over $32,000 but not over $38,000	$9,900, plus 50% of excess over $32,000.
Over $38,000 but not over $44,000	$12,900, plus 53% of excess over $38,000.
Over $44,000 but not over $50,000	$16,080, plus 55% of excess over $44,000.
Over $50,000 but not over $60,000	$19,380, plus 57% of excess over $50,000.
Over $60,000 but not over $70,000	$25,080, plus 59% of excess over $60,000.
Over $70,000 but not over $80,000	$30,980, plus 61% of excess over $70,000.
Over $80,000 but not over $90,000	$37,080, plus 63% of excess over $80,000.
Over $90,000 but not over $100,000	$43,380, plus 64% of excess over $90,000.
Over $100,000 but not over $150,000	$49,780, plus 65% of excess over $100,000.
Over $150,000 but not over $200,000	$82,280, plus 66% of excess over $150,000.
Over $200,000 but not over $250,000	$115,280, plus 67% of excess over $200,000.
Over $250,000 but not over $300,000	$148,780, plus 69% of excess over $250,000.
Over $300,000 but not over $400,000	$183,280, plus 71% of excess over $300,000.
Over $400,000 but not over $500,000	$254,280, plus 72% of excess over $400,000.
Over $500,000 but not over $750,000	$326,280, plus 73% of excess over $500,000.
Over $750,000 but not over $1,000,000	$508,780, plus 74% of excess over $750,000.
Over $1,000,000 but not over $2,000,000.	$693,780, plus 75% of excess over $1,000,000.
Over $2,000,000 but not over $5,000,000.	$1,443,780, plus 76% of excess over $2,000,000.
Over $5,000,000	$3,723,780, plus 77% of excess over $5,000,000."

SEC. 102. OPTIONAL TAX ON INDIVIDUALS WITH CERTAIN GROSS INCOME OF $3,000 OR LESS.

(a) OPTIONAL TAX.—The Internal Revenue Code is amended by inserting after section 396 the following new Supplement:

"Supplement T—Individuals With Gross Income From Certain Sources of $3,000 or Less

"SEC. 400. IMPOSITION OF TAX.

"In lieu of the tax imposed under sections 11 and 12, an individual may elect, for each taxable year, to pay the tax shown in the following

table if his gross income for such taxable year is $3,000 or less and consists wholly of one or more of the following: Salary, wages, compensation for personal services, dividends, interest, rent, annuities, or royalties:

"If the gross income is over—	But not over—	The tax shall be—	
		Single person (not head of a family)	Head of family or married person
$1	$750	$0	$0
$750	775	1	0
$775	800	2	0
$800	825	3	0
$825	850	5	0
$850	875	7	0
$875	900	9	0
$900	925	11	0
$925	950	14	0
$950	975	16	0
$975	1,000	18	0
$1,000	1,025	20	0
$1,025	1,050	22	0
$1,050	1,075	24	0
$1,075	1,100	26	0
$1,100	1,125	29	0
$1,125	1,150	31	0
$1,150	1,175	33	0
$1,175	1,200	35	0
$1,200	1,225	37	0
$1,225	1,250	39	0
$1,250	1,275	42	0
$1,275	1,300	44	0
$1,300	1,325	46	0
$1,325	1,350	48	0
$1,350	1,375	50	0
$1,375	1,400	52	0
$1,400	1,425	55	0
$1,425	1,450	57	0
$1,450	1,475	59	0
$1,475	1,500	61	0
$1,500	1,525	63	1
$1,525	1,550	65	2
$1,550	1,575	68	3
$1,575	1,600	70	5
$1,600	1,625	72	6
$1,625	1,650	74	7
$1,650	1,675	76	9
$1,675	1,700	78	11
$1,700	1,725	80	13
$1,725	1,750	83	15
$1,750	1,775	85	17
$1,775	1,800	87	19
$1,800	1,825	89	22

"If the gross income is over—	But not over—	The tax shall be—	
		Single person (not head of a family)	Head of family or married person
$1,825	$1,850	$91	$24
$1,850	1,875	93	26
$1,875	1,900	96	28
$1,900	1,925	98	30
$1,925	1,950	100	32
$1,950	1,975	102	35
$1,975	2,000	104	37
$2,000	2,025	106	39
$2,025	2,050	109	41
$2,050	2,075	111	43
$2,075	2,100	113	45
$2,100	2,125	115	48
$2,125	2,150	117	50
$2,150	2,175	119	52
$2,175	2,200	122	54
$2,200	2,225	124	56
$2,225	2,250	126	58
$2,250	2,275	128	60
$2,275	2,300	130	63
$2,300	2,325	132	65
$2,325	2,350	134	67
$2,350	2,375	137	69
$2,375	2,400	139	71
$2,400	2,425	141	73
$2,425	2,450	143	76
$2,450	2,475	145	78
$2,475	2,500	147	80
$2,500	2,525	150	82
$2,525	2,550	152	84
$2,550	2,575	154	86
$2,575	2,600	156	89
$2,600	2,625	158	91
$2,625	2,650	160	93
$2,650	2,675	163	95
$2,675	2,700	165	97
$2,700	2,725	167	99
$2,725	2,750	169	102
$2,750	2,775	172	104
$2,775	2,800	174	106
$2,800	2,825	177	108
$2,825	2,850	180	110
$2,850	2,875	183	112
$2,875	2,900	186	114
$2,900	2,925	189	117
$2,925	2,950	191	119
$2,950	2,975	194	121
$2,975	3,000	197	123

In applying the above schedule to determine the tax of a taxpayer with one or more dependents there shall be subtracted from his gross income $400 for each such dependent.

"SEC. 401. RULES FOR APPLICATION OF SECTION 400.

"For the purposes of this Supplement—

"(a) DEFINITIONS—

"(1) 'Married person' means a married person living with husband or wife.

"(2) 'Dependent' means a person (other than husband or wife) dependent upon and receiving his chief support from the taxpayer if such dependent person is under eighteen years of age or is incapable of self-support because mentally or physically defective, excluding as a dependent, in the case of a head of a family, one who would be excluded under section 25 (b) (2) (B).

"(b) DETERMINATION OF STATUS.—The determination of whether a person is living with husband or wife, is a head of a family, or is a dependent, shall be made as of the last day of the taxpayer's taxable year.

"(c) SEPARATE RETURN OF HUSBAND AND WIFE.—If a husband and wife living together file separate returns, each shall be treated as a single person.

"(d) MARRIED PERSONS NOT LIVING WITH HUSBAND OR WIFE.—A married person not a head of a family and not living with husband or wife shall be treated as a single person.

"SEC. 402. MANNER OF ELECTION.

"The election referred to in section 400 shall be considered to have been made if the taxpayer files the return prescribed for this Supplement and such election shall be irrevocable. If the taxpayer for any taxable year has filed a return computing his tax without regard to this Supplement, he may not thereafter elect for such year to compute his tax under this Supplement.

"SEC. 403. CREDITS AGAINST TAX NOT ALLOWED.

"Section 31 (relating to foreign tax credit) and section 32 (relating to credit for taxes withheld at source) shall not apply with respect to the tax imposed by this Supplement.

"SEC. 404. CERTAIN TAXPAYERS NOT ELIGIBLE.

"This Supplement shall not apply to a nonresident alien individual, or an estate or trust."

(b) CROSS-REFERENCES.—

(1) Section 11 of the Internal Revenue Code is amended by inserting at the end thereof the following: "(For alternative tax if gross income from certain sources is $3,000 or less, see section 400)".

(2) Section 12 of the Internal Revenue Code is amended by inserting at the end thereof the following:

"(g) For alternative tax if gross income from certain sources is $3,000 or less, see section 400."

(c) AMENDMENT TO SECTION 4.—Section 4 of the Internal Revenue Code is amended by inserting at the end thereof the following:

"(k) Shareholders of Personal Service Corporations,—Supplement S.

"(l) Individuals with gross income from certain sources of $3,000 or less,—Supplement T."

SEC. 103. CORPORATION DEFENSE TAX RATES INCORPORATED IN RATE SCHEDULES.

(a) TAX ON CORPORATIONS IN GENERAL.—Section 13 (b) (1) and (2) of the Internal Revenue Code are amended to read as follows:

"(1) GENERAL RULE.—A tax of 24 per centum of the normal-tax net income; or

"(2) ALTERNATIVE TAX (CORPORATIONS WITH NORMAL-TAX NET INCOME SLIGHTLY MORE THAN $25,000).—A tax of $4,250, plus 37 per centum of the amount of the normal-tax net income in excess of $25,000."

(b) TAX ON SPECIAL CLASSES OF CORPORATIONS.—Section 14 (b) of the Internal Revenue Code is amended to read as follows:

"(b) CORPORATIONS WITH NORMAL-TAX NET INCOMES OF NOT MORE THAN $25,000.—If the normal-tax net income of the corporation is not more than $25,000, and if the corporation does not come within one of the classes specified in subsection (c), (d), or (e) of this section, the tax shall be as follows:

"Upon normal-tax net incomes not in excess of $5,000, 15 per centum.

"$750 upon normal-tax net incomes of $5,000, and upon normal-tax net incomes in excess of $5,000 and not in excess of $20,000, 17 per centum in addition of such excess.

"$3,300 upon normal-tax net incomes of $20,000, and upon normal-tax net incomes in excess of $20,000, 19 per centum in addition of such excess."

(c) FOREIGN CORPORATIONS.—Section 14 (c) of the Internal Revenue Code (relating to tax on resident foreign corporations) is amended by striking out "$22\frac{1}{10}$ per centum" and inserting "24 per centum".

(d) SURTAX ON CORPORATIONS IMPROPERLY ACCUMULATING SURPLUS.—The rate schedule of section 102 of the Internal Revenue Code is amended to read as follows:

"27½ per centum of the amount of the undistributed section 102 net income not in excess of $100,000, plus

"38½ per centum of the undistributed section 102 net income in excess of $100,000."

(e) MUTUAL INVESTMENT COMPANIES.—Section 362 (b) of the Internal Revenue Code (relating to tax on mutual investment companies) is amended by striking out "$22\frac{1}{10}$ per centum" and inserting "24 per centum".

SEC. 104. SURTAX ON CORPORATIONS AND TERMINATION OF DEFENSE TAX.

(a) GENERAL RULE.—Section 15 of the Internal Revenue Code (relating to defense tax) is amended to read as follows:

"SEC. 15. SURTAX ON CORPORATIONS.

"(a) CORPORATION SURTAX NET INCOME.—For the purposes of this chapter the term 'corporation surtax net income' means the net income minus the credit for dividends received provided in section

26 (b), computed by limiting such credit to 85 per centum of the net income in lieu of 85 per centum of the adjusted net income.

"(b) IMPOSITION OF TAX.—There shall be levied, collected, and paid for each taxable year upon the corporation surtax net income of every corporation (except a corporation subject to the tax imposed by section 231 (a) or Supplement Q) a surtax as follows:

"Upon corporation surtax net incomes not in excess of $25,000, 6 per centum of the amount thereof;

"Upon corporation surtax net incomes in excess of $25,000, $1,500, plus 7 per centum of the excess over $25,000."

(b) SURTAX ON MUTUAL INVESTMENT COMPANIES.—Supplement Q of the Internal Revenue Code (relating to mutual investment companies) is amended by inserting at the end thereof a new section to read as follows:

"SEC. 363. SURTAX ON MUTUAL INVESTMENT COMPANIES.

"(a) SUPPLEMENT Q SURTAX NET INCOME.—For the purposes of this chapter the term 'Supplement Q surtax net income' means the net income, computed without the net operating loss deduction provided in section 23 (s), minus the dividends paid during the taxable year increased by the consent dividends credit provided in section 28. For the purposes of this subsection the amount of dividends paid shall be computed in the same manner as provided in subsections (d), (e), (f), (g), (h), and (i) of section 27 for the purpose of the basic surtax credit provided in section 27.

"(b) IMPOSITION OF TAX.—There shall be levied, collected, and paid for each taxable year upon the Supplement Q surtax net income of every mutual investment company a surtax as follows:

"Upon Supplement Q surtax net incomes not in excess of $25,000, 6 per centum of the amount thereof;

"Upon Supplement Q surtax net incomes in excess of $25,000, $1,500, plus 7 per centum of the excess over $25,000."

(c) SURTAX ON BANKS.—Section 104 (b) of the Internal Revenue Code (relating to certain banks and trust companies) is amended to read as follows:

"(b) RATE OF TAX.—Banks shall be subject to tax under section 13 or section 14 (b), and under section 15."

(d) SURTAX ON RESIDENT FOREIGN CORPORATIONS.—Section 231 (b) of the Internal Revenue Code (relating to certain foreign corporations) is amended to read as follows:

"(b) RESIDENT CORPORATIONS.—A foreign corporation engaged in trade or business within the United States or having an office or place of business therein shall be taxable as provided in section 14 (c) (1) and section 15."

(e) SURTAX ON CORPORATIONS ENTITLED TO THE BENEFITS OF SECTION 251.—Section 251 (c) (1) of the Internal Revenue Code (relating to the tax on corporations entitled to the benefits of section 251) is amended to read as follows:

"(1) CORPORATION TAX.—A domestic corporation entitled to the benefits of this section shall be subject to tax under section 13 or section 14 (b), and under section 15."

(f) SURTAX ON CHINA TRADE ACT CORPORATIONS.—

(1) SURTAX.—Section 261 (a) of the Internal Revenue Code (relating to the tax on China Trade Act corporations) is amended to read as follows:

"(a) CORPORATION TAX.—A corporation organized under the China Trade Act, 1922 (42 Stat. 849; U. S. C., 1934 ed., title 15, ch. 4), shall be subject to tax under section 13 or section 14 (b), and under section 15."

(2) CREDIT OF CHINA TRADE ACT CORPORATIONS.—Section 262 (a) of the Internal Revenue Code (relating to credit against net income of China Trade Act corporations) is amended by striking out "sections 13, 14, and 600" and inserting in lieu thereof "sections 13, 14, 15, and 600"; and by striking out "section 13 or 14" wherever occurring therein and inserting in lieu thereof "section 13, 14, or 15".

SEC. 105. TAX ON NONRESIDENT ALIEN INDIVIDUALS.

(a) TAX IN GENERAL.—Section 211 (a) (1) (A) of the Internal Revenue Code (relating to tax on nonresident alien individuals not engaged in trade or business within the United States and not having an office or place of business therein) is amended by striking out "15 per centum" and inserting in lieu thereof "27½ per centum".

(b) AGGREGATE RECEIPTS MORE THAN $23,000.—Section 211 (a) (2) of the Internal Revenue Code is amended to read as follows:

"(2) AGGREGATE MORE THAN $23,000.—The tax imposed by paragraph (1) shall not apply to any individual if the aggregate amount received during the taxable year from the sources therein specified is more than $23,000."

(c) TAX WHERE GROSS INCOME OF MORE THAN $23,000.—Section 211 (c) of the Internal Revenue Code (relating to tax on certain nonresident alien individuals) is amended by striking out "$24,000" wherever occurring therein and inserting in lieu thereof "$23,000"; and by striking out "15 per centum" and inserting in lieu thereof "27½ per centum".

SEC. 106. TAX ON FOREIGN CORPORATIONS.

Section 231 (a) of the Internal Revenue Code (relating to tax on nonresident foreign corporations) is amended by striking out "15 per centum" and inserting in lieu thereof "27½ per centum".

SEC. 107. WITHHOLDING OF TAX AT SOURCE.

(a) Sections 143 (a) and (b) and 144 of the Internal Revenue Code are amended by striking out "15 per centum" wherever occurring therein and inserting in lieu thereof "27½ per centum".

(b) Section 143 (h) of the Internal Revenue Code is repealed.

(c) Subsections (a) and (b) of this section shall apply only with respect to the period beginning with the tenth day after the date of the enactment of this Act.

SEC. 108. TREATY OBLIGATIONS.

No amendment made by this title shall apply in any case where its application would be contrary to any treaty obligation of the United States.

SEC. 109. REDUCTION IN PURSUANCE OF TREATIES OF RATES OF TAX AND WITHHOLDING ON NONRESIDENT ALIEN INDIVIDUALS RESIDENT IN, AND CORPORATIONS ORGANIZED UNDER LAWS OF, WESTERN HEMISPHERE COUNTRIES.

(a) Section 143 (a) (1) (relating to withholding of tax on tax-free covenant bonds); section 143 (b) (relating to withholding of tax on dividends, rents, etc.); section 144 (relating to payment of corporation income tax at source); section 211 (a) (1) (relating to tax on nonresident alien individuals); and section 231 (a) (1) (relating to tax on nonresident foreign corporations) of the Internal Revenue Code are amended by striking out "a contiguous country" and inserting in lieu thereof "any country in North, Central, or South America, or in the West Indies, or of Newfoundland".

(b) Section 211 (a) (3) of the Internal Revenue Code is amended to read as follows:

"(3) RESIDENTS OF CERTAIN COUNTRIES.—The provisions of paragraph (2) shall not apply to a resident of any country in North, Central, or South America, or in the West Indies, or of Newfoundland, so long as there is in effect with such country a treaty which provides otherwise."

(c) Section 211 (c) (4) of the Internal Revenue Code is amended to read as follows:

"(4) This subsection shall not apply to a resident of any country in North, Central, or South America, or in the West Indies, or of Newfoundland, so long as there is in effect with such country a treaty which provides otherwise."

SEC. 110. DEFENSE TAX RATES ON PERSONAL HOLDING COMPANIES AND TRANSFERS TO AVOID INCOME TAX INCORPORATED IN RATE SCHEDULES.

(a) PERSONAL HOLDING COMPANIES.—Section 500 of the Internal Revenue Code (relating to tax on personal holding companies) is amended as follows:

(1) By striking out the heading "(a) GENERAL RULE.—";

(2) By amending the rate schedule to read as follows:

"(1) 71½ per centum of the amount thereof not in excess of $2,000; plus

"(2) 82½ per centum of the amount thereof in excess of $2,000."; and

(3) By repealing subsection (b) (relating to defense tax for five years).

(b) TRANSFERS TO AVOID INCOME TAX.—Section 1250 of the Internal Revenue Code (relating to tax on transfers to avoid income tax) is amended as follows:

(1) By striking out the heading "(a) GENERAL RULE.—";

(2) By striking out "25 per centum" and inserting "27½ per centum"; and

(3) By repealing subsection (b) (relating to defense tax for five years).

SEC. 111. PERSONAL EXEMPTION.

(a) Section 25 (b) (1) of the Internal Revenue Code is amended to read as follows:

"(1) PERSONAL EXEMPTION.—In the case of a single person or a married person not living with husband or wife, a personal exemption of $750; or in the case of the head of a family or a married person living with husband or wife, a personal exemption of $1,500. A husband and wife living together shall receive but one personal exemption. The amount of such personal exemption shall be $1,500. If such husband and wife make separate returns, the personal exemption may be taken by either or divided between them, except that if one spouse makes a return under Supplement T, the personal exemption of the other spouse shall be $750."

(b) Section 214 of the Internal Revenue Code (relating to personal exemption of nonresident alien individuals) is amended by striking out "$800" and inserting in lieu thereof "$750".

(c) Section 251 (f) of the Internal Revenue Code (relating to personal exemption of citizens entitled to benefits of section 251) is amended by striking out "$800" and inserting in lieu thereof "$750".

SEC. 112. RETURNS OF INCOME TAX.

(a) INDIVIDUAL RETURNS.—Section 51 (a) of the Internal Revenue Code is amended to read as follows:

"(a) REQUIREMENT.—The following individuals shall each make under oath a return stating specifically the items of his gross income and the deductions and credits allowed under this chapter and such other information for the purpose of carrying out the provisions of this chapter as the Commissioner with the approval of the Secretary may by regulations prescribe—

"(1) Every individual who is single or who is married but not living with husband or wife, if having a gross income for the taxable year of $750 or over.

"(2) Every individual who is married and living with husband or wife, if no joint return is made under subsection (b) and if—

"(A) Such individual has for the taxable year a gross income of $1,500 or over, and the other spouse has no gross income; or

"(B) Such individual and his spouse each has for the taxable year a gross income and the aggregate gross income is $1,500 or over."

(b) FIDUCIARY RETURNS.—Section 142 (a) of the Internal Revenue Code is amended to read as follows:

"(a) REQUIREMENT OF RETURN.—Every fiduciary (except a receiver appointed by authority of law in possession of part only of the property of an individual) shall make under oath a return for any of the following individuals, estates, or trusts for which he acts, stating specifically the items of gross income thereof and the deductions and credits allowed under this chapter and such other information for the purpose of carrying out the provisions of this chapter as the Com-

missioner with the approval of the Secretary may by regulations prescribe—

"(1) Every individual having a gross income for the taxable year of $750 or over, if single, or if married and not living with husband or wife;

"(2) Every individual having a gross income for the taxable year of $1,500 or over, if married and living with husband or wife;

"(3) Every estate the gross income of which for the taxable year is $750 or over;

"(4) Every trust the net income of which for the taxable year is $100 or over, or the gross income of which for the taxable year is $750 or over, regardless of the amount of the net income; and

"(5) Every estate or trust of which any beneficiary is a nonresident alien."

(c) INFORMATION RETURNS.—Section 147 (a) of the Internal Revenue Code (relating to information at the source) is amended by striking out "$800" wherever occurring therein and inserting in lieu thereof "$750".

SEC. 113. CREDIT FOR DEPENDENTS.

Section 25 (b) (2) of the Internal Revenue Code (relating to credit for dependents) is amended to read as follows:

"(2) CREDIT FOR DEPENDENTS.—

"(A) Allowance in General.—$400 for each person (other than husband or wife) dependent upon and receiving his chief support from the taxpayer if such dependent person is under eighteen years of age or is incapable of self-support because mentally or physically defective.

"(B) Exception for Certain Heads of Families.—If the taxpayer would not occupy the status of head of a family except by reason of there being one or more dependents for whom he would be entitled to credit under subparagraph (A), the credit under such subparagraph shall be disallowed with respect to one of such dependents."

SEC. 114. NONINTEREST-BEARING OBLIGATIONS ISSUED AT DISCOUNT.

Section 42 of the Internal Revenue Code (relating to period in which items of gross income are included) is amended by inserting before the first sentence thereof "(a) GENERAL RULE.—", and by inserting at the end of such section a new subsection to read as follows:

"(b) NONINTEREST-BEARING OBLIGATIONS ISSUED AT DISCOUNT.—If, in the case of a taxpayer owning any noninterest-bearing obligation issued at a discount and redeemable for fixed amounts increasing at stated intervals, the increase in the redemption price of such obligation occurring in the taxable year does not (under the method of accounting used in computing his net income) constitute income to him in such year, such taxpayer may, at his election made in his return for any taxable year beginning after December 31, 1940, treat such increase as income received in such taxable year. If any such

election is made with respect to any such obligation, it shall apply also to all such obligations owned by the taxpayer at the beginning of the first taxable year to which it applies and to all such obligations thereafter acquired by him and shall be binding for all subsequent taxable years, unless upon application by the taxpayer the Commissioner permits him, subject to such conditions as the Commissioner deems necessary, to change to a different method. In the case of any such obligations owned by the taxpayer at the beginning of the first taxable year to which his election applies, the increase in the redemption price of such obligations occurring between the date of acquisition and the first day of such taxable year shall also be treated as income received in such taxable year."

SEC. 115. SHORT-TERM OBLIGATIONS ISSUED ON A DISCOUNT BASIS.

(a) DISCOUNT ACCRUED AT MATURITY.—Section 42 of the Internal Revenue Code (relating to period in which items of gross income are included) is amended by inserting at the end thereof the following new subsection:

"(c) SHORT-TERM OBLIGATIONS ISSUED ON DISCOUNT BASIS.—In the case of any obligation of the United States or any of its possessions, or of a State or Territory, or any political subdivision thereof, or of the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding one year from the date of issue, the amount of discount at which such obligation is originally sold shall not be considered to accrue until the date on which such obligation is paid at maturity, sold, or otherwise disposed of."

(b) CAPITAL GAIN RULE NOT APPLICABLE.—Section 117 (a) (1) of the Internal Revenue Code (relating to definition of capital assets) is amended by striking out the semicolon at the end thereof and inserting in lieu thereof the following: ", or an obligation of the United States or any of its possessions, or of a State or Territory, or any political subdivision thereof, or of the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding one year from the date of issue;".

(c) EFFECTIVE DATE OF AMENDMENTS.—The amendments made by this section shall be applicable with respect to taxable years ending after February 28, 1941.

SEC. 116. INFORMATION RETURNS WITH RESPECT TO FEDERAL OBLIGATIONS.

(a) Section 147 (d) of the Internal Revenue Code (exempting interest on obligations of the United States from information requirement) is repealed.

(b) Section 147 (b) of the Internal Revenue Code is amended by striking out "and (2)" and inserting in lieu thereof "(2) in the case of payments of interest upon obligations of the United States or any agency or instrumentality thereof, and (3)".

(c) Subsections (a) and (b) of this section shall take effect upon the day after the date of the enactment of this Act.

SEC. 117. EXTENSION OF TIME OF ORDERS OF SECURITIES AND EXCHANGE COMMISSION.

(a) EXTENSION.—Section 373 (a) of the Internal Revenue Code (relating to the definition of orders of the Securities and Exchange Commission with respect to which Supplement R applies) is amended to read as follows:

"(a) The term 'order of the Securities and Exchange Commission' means an order (1) issued after May 28, 1938, and prior to January 1, 1943, by the Securities and Exchange Commission to effectuate the provisions of section 11 (b) of the Public Utility Holding Company Act of 1935 (49 Stat. 820; U. S. C., Supp. V, title 15, section 79k (b)), or (2) issued by the Commission subsequent to December 31, 1942, in which it is expressly stated that an order of the character specified in clause (1) is amended or supplemented, and (3) which has become final in accordance with law."

(b) EFFECTIVE DATE OF AMENDMENT.—The amendment made by this section shall be applicable only with respect to taxable years beginning after December 31, 1939.

SEC. 118. TAXABLE YEARS TO WHICH AMENDMENTS APPLICABLE.

The amendments made by this title (except sections 107, 115, 116, and 117) shall be applicable only with respect to taxable years beginning after December 31, 1940.

TITLE II—EXCESS PROFITS TAX

SEC. 201. EXCESS PROFITS TAX RATES AND CREDITS.

(a) RATES.—Section 710 (a) of the Internal Revenue Code is amended to read as follows:

"(a) IMPOSITION.—

"(1) GENERAL RULE.—There shall be levied, collected, and paid, for each taxable year, on the adjusted excess profits net income, as defined in subsection (b), of every corporation (except a corporation exempt under section 727) the tax shown in the following table:

"If the adjusted excess profits net income is:	The tax shall be:
Not over $20,000	35% of the adjusted excess profits net income.
Over $20,000, but not over $50,000	$7,000, plus 40% of excess over $20,000.
Over $50,000, but not over $100,000	$19,000, plus 45% of excess over $50,000.
Over $100,000, but not over $250,000	$41,500, plus 50% of excess over $100,000.
Over $250,000, but not over $500,000	$116,500, plus 55% of excess over $250,000.
Over $500,000	$254,000, plus 60% of excess over $500,000.

"(2) APPLICATION OF RATES IN CASE OF CERTAIN EXCHANGES.—If the taxpayer's highest bracket amount for the taxable year computed under section 752 (relating to certain exchanges) is less than $500,000, then in the application of the table in paragraph (1) of this subsection to such taxpayer, in lieu of each amount,

other than the percentages, specified in such table, there shall be substituted an amount which bears the same ratio to the amount so specified as the highest bracket amount so computed bears to $500,000."

(b) EXCESS PROFITS CREDIT—BASED ON INVESTED CAPITAL.—Section 714 of the Internal Revenue Code, as amended, is amended to read as follows:

"SEC. 714. EXCESS PROFITS CREDIT—BASED ON INVESTED CAPITAL.

"The excess profits credit, for any taxable year, computed under this section, shall be the amount shown in the following table:

"If the invested capital for the taxable year, determined under section 715, is:	The credit shall be:
Not over $5,000,000	8% of the invested capital.
Over $5,000,000	$400,000, plus 7% of the excess over $5,000,000."

SEC. 202. DEDUCTION OF EXCESS-PROFITS TAX.

(a) AMENDMENT OF SECTION 23 (c).—Section 23 (c) of the Internal Revenue Code (relating to the deduction of taxes in computing net income) is amended to read as follows:

"(c) TAXES GENERALLY.—

"(1) ALLOWANCE IN GENERAL.—Taxes paid or accrued within the taxable year, except—

"(A) Federal income taxes;

"(B) war-profits and excess-profits taxes imposed by Title II of the Revenue Act of 1917, Title III of the Revenue Act of 1918, Title III of the Revenue Act of 1921, section 216 of the National Industrial Recovery Act, or section 702 of the Revenue Act of 1934, or by any such provisions as amended or supplemented;

"(C) income, war-profits, and excess-profits taxes imposed by the authority of any foreign country or possession of the United States; but this deduction shall be allowed in the case of a taxpayer who does not signify in his return his desire to have to any extent the benefits of section 131 (relating to credit for taxes of foreign countries and possessions of the United States);

"(D) estate, inheritance, legacy, succession, and gift taxes; and

"(E) taxes assessed against local benefits of a kind tending to increase the value of the property assessed; but this paragraph shall not exclude the allowance as a deduction of so much of such taxes as is properly allocable to maintenance or interest charges.

"(2) EXCESS-PROFITS TAX UNDER CHAPTER 2E—SPECIAL RULES.—For the purposes of this subsection, in the case of the excess-profits tax imposed by Subchapter E of Chapter 2—

"(A) The deduction shall be limited to the tax imposed for the taxable year, but any portion of such tax paid after the taxable year shall be considered as having been paid within the taxable year;

"(B) No reduction in such tax shall be made by reason of the credit for income, war-profits, or excess-profits taxes paid to any foreign country or possession of the United States;

"(C) Such tax shall be computed without regard to the adjustments provided in section 734; and

"(D) Such tax, in the case of a consolidated return under section 730, shall be allocated to the members of the affiliated group under regulations prescribed by the Commissioner, with the approval of the Secretary."

(b) AMENDMENT OF SECTION 102 (d).—Section 102 (d) (1) (A) of the Internal Revenue Code (relating to the deduction of taxes in computing section 102 net income) is amended to read as follows:

"(A) Taxes.—Federal income, war-profits, and excess-profits taxes (other than the tax imposed by Subchapter E of Chapter 2 for a taxable year beginning after December 31, 1940) paid or accrued during the taxable year, to the extent not allowed as a deduction by section 23, but not including the tax imposed by this section or a corresponding section of a prior income-tax law."

(c) COMPUTATION OF EXCESS-PROFITS NET INCOME.—

(1) TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1940.—

(A) Section 711 (a) (1) (A) (relating to adjustment for income taxes in computing excess-profits net income under income credit) is amended to read as follows:

"(A) Income Taxes.—In computing such normal-tax net income the deduction for the tax imposed by this subchapter shall not be allowed;".

(B) Section 711 (a) (2) (C) (relating to adjustment for income taxes in computing excess-profits net income under invested capital credit) is amended to read as follows:

"(C) Income Taxes.—In computing such normal-tax net income the deduction for the tax imposed by this subchapter shall not be allowed;".

(2) TAXABLE YEARS IN THE BASE PERIOD.—Section 711 (b) (1) (A) (relating to adjustment for income taxes for taxable years in the base period) is repealed.

(d) COMPUTATION OF CHARITABLE, ETC., DEDUCTIONS.—

(1) Section 711 (a) (1) of the Internal Revenue Code is amended by inserting at the end thereof the following new subparagraph:

"(G) Computation of Charitable, Etc., Deductions.—In determining any deduction the amount of which is limited to a percentage of the taxpayer's net income (or net income from the property), such net income (or net income from the property) shall be computed without regard to the deduction on account of the tax imposed by this subchapter."

(2) Section 711 (a) (2) of the Internal Revenue Code is amended by adding at the end thereof the following new subparagraph:

"(I) Computation of Charitable, Etc., Deductions.—In determining any deduction the amount of which is limited to a percentage of the taxpayer's net income (or net income

from the property), such net income (or net income from the property) shall be computed without regard to the deduction on account of the tax imposed by this subchapter."

(e) EXCESS-PROFITS CREDIT CARRY-OVER.—Section 710 (c) (1) (defining the unused excess-profits credit) is amended by adding at the end thereof a new sentence to read as follows: "For such purpose the excess-profits credit and the excess-profits net income for any taxable year beginning in 1940 shall be computed under the law applicable to taxable years beginning in 1941.".

(f) EQUITY INVESTED CAPITAL.—Section 718 (c) (3) (relating to the computation of earnings and profits for invested capital purposes) is amended by adding after the word "subchapter" the words "or chapter 1".

(g) ADJUSTMENT OF ABNORMAL BASE PERIOD NET INCOME.—Section 722 (c) (placing a limit on the amount of relief afforded under section 722) is amended by adding at the end thereof a new sentence to read as follows: "For the purposes of this subsection and subsection (d) the taxpayer's normal-tax net income shall be computed without deduction of the tax imposed by this subchapter.".

(h) NONDEDUCTIBILITY OF EXCESS PROFITS TAX IN COMPUTATION OF DECLARED VALUE EXCESS PROFITS TAX.—Section 602 of the Internal Revenue Code is amended by striking out "computed without the deduction of the tax imposed by section 600" and inserting in lieu thereof "computed without the deduction of the tax imposed by section 600 or the tax imposed by Subchapter E of Chapter 2".

(i) ADJUSTED DECLARED VALUE.—

(1) Section 1202 (b) (1) (C) of the Internal Revenue Code is amended to read as follows:

"(C) its net income, computed without the deduction of the tax imposed by Subchapter E of Chapter 2,".

(2) Section 1202 (b) (1) (iii) is amended to read as follows:

"(iii) the excess of the deductions allowable for income tax purposes (not including the deduction for the tax imposed by Subchapter E of Chapter 2) over its gross income."

SEC. 203. NEW CAPITAL.

Section 718 (a) of the Internal Revenue Code is amended by striking out "and" at the end of paragraph (4); by striking out the period at the end of paragraph (5) and inserting in lieu thereof a semicolon and the word "and", and by inserting at the end thereof the following:

"(6) NEW CAPITAL.—An amount equal to 25 per centum of the new capital for such day. The term 'new capital' for any day means so much of the amounts of money or property includible for such day under paragraphs (1) and (2) as was previously paid in during a taxable year beginning after December 31, 1940, and so much of the distributions in stock includible for such day under paragraph (3) as was previously made during a taxable year beginning after December 31, 1940, subject to the following limitations:

"(A) There shall not be included money or property paid in by a corporation in an exchange to which section 112 (b)

(3), (4), or (5), or so much of section 112 (c), (d), or (e) as refers to section 112 (b) (3), (4), or (5) is applicable (or would be applicable except for section 371 (g)), or would have been applicable if the term 'control' had been defined in section 112 (h) to mean the ownership of stock possessing more than 50 per centum of the total combined voting power of all classes of stock entitled to vote or more than 50 per centum of the total value of shares of all classes of stock.

"(B) There shall not be included money or property paid in to the taxpayer by a transferor corporation if immediately after such transaction the transferor and the taxpayer are members of the same controlled group. As used in this subparagraph and subparagraph (C), a controlled group means one or more chains of corporations connected through stock ownership with a common parent corporation if (i) more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock, of each of the corporations (except the common parent corporation) is owned directly by one or more of the other corporations, and (ii) the common parent corporation owns directly more than 50 per centum of the total combined voting power of all classes of stock entitled to vote, or more than 50 per centum of the total value of shares of all classes of stock, of at least one of the other corporations.

"(C) There shall not be included a distribution in stock described in paragraph (3) made to another corporation, if immediately after the distribution the taxpayer and the distributee are members of the same controlled group.

"(D) Increase in Inadmissible Assets.—The new capital for any day of the taxable year, computed without the application of subparagraph (E), shall be reduced by the excess, if any, of the amount computed under section 720 (b) with respect to inadmissible assets held on such day, over the amount computed under section 720 (b) with respect to inadmissible assets held on the first day of the taxpayer's first taxable year beginning after December 31, 1940. For the purposes of this subparagraph, in determining whether obligations which are described in section 22 (b) (4) any part of the interest from which is excludible from gross income or allowable as a credit against net income are to be treated as admissible or inadmissible assets, such obligations shall be treated in the same manner as they are treated for the taxable year for which tax under this subchapter is being computed.

"(E) Maximum New Capital Allowable.—The new capital for any day of the taxable year shall not be more than the amount, if any, by which—

"(i) the sum of the equity invested capital (computed without regard to this paragraph) and the borrowed capital (as defined in section 719 (a)) of the taxpayer as of such day, reduced by the amount of money or prop-

erty paid in which is excluded by reason of the limitation of subparagraph (A) or (B) of this paragraph, exceeds

"(ii) the sum of such equity invested capital and borrowed capital as of the beginning of the first day of such taxpayer's first taxable year beginning after December 31, 1940, reduced by the amount, if any, by which the accumulated earnings and profits as of such first day of such first taxable year exceed the accumulated earnings and profits (computed without regard to distributions made in taxable years beginning after December 31, 1940) as of the beginning of the first day of the taxable year for which the tax under this subchapter is being computed.

"(F) Reduction on Account of Distributions Out of Pre-1941 Accumulated Earnings and Profits.—The new capital for any day of the taxable year, computed without the application of subparagraph (E), shall be reduced by the amount which, after the beginning of the first taxable year which begins after December 31, 1940, has been distributed out of earnings and profits accumulated prior to the beginning of such first taxable year."

SEC. 204. CORPORATIONS ENGAGED IN MINING STRATEGIC METALS.

Section 731 of the Internal Revenue Code (exempting from excess-profits tax income derived from mining certain metals) shall not apply with respect to any taxable year beginning after December 31, 1940.

SEC. 205. TAXABLE YEARS TO WHICH AMENDMENTS APPLICABLE.

The amendments made by this title shall be applicable only with respect to taxable years beginning after December 31, 1940.

TITLE III—CAPITAL STOCK TAX AND DECLARED VALUE EXCESS-PROFITS TAX

SEC. 301. CAPITAL STOCK TAX.

(a) INCREASE IN RATE OF TAX.—Section 1200 (a) and (b) of the Internal Revenue Code (relating to rate of capital stock tax) is amended by striking out "$1" and inserting in lieu thereof "$1.25".

(b) DEFENSE TAX RATE.—Section 1200 (c) of the Internal Revenue Code is repealed.

(c) RETURNS FOR 1941.—Section 1203 (b) (2) of the Internal Revenue Code (relating to extensions of time for filing capital-stock tax returns) is amended by inserting at the end thereof the following: "With respect to the year ending June 30, 1941, the extension may be for not more than ninety days.".

(d) EFFECTIVE DATE.—This section shall be effective only with respect to the year ending June 30, 1941, and succeeding years.

SEC. 302. DECLARED VALUE EXCESS PROFITS TAX—DEFENSE TAX RATES INCORPORATED IN RATE SCHEDULE.

(a) RATES.—Section 600 of the Internal Revenue Code (relating to rate of declared value excess profits tax) is amended as follows:

(1) By striking out the heading "(a) GENERAL RULE.—";

(2) By amending the rate schedule to read as follows:

"$6\frac{6}{10}$ per centum of such portion of its net income for such income-tax taxable year as is in excess of 10 per centum and not in excess of 15 per centum of the adjusted declared value;

"$13\frac{2}{10}$ per centum of such portion of its net income for such income-tax taxable year as is in excess of 15 per centum of the adjusted declared value."; and

(3) By repealing subsection (b) (relating to defense tax for five years).

(b) EFFECTIVE DATE.—This section shall be effective only with respect to income-tax taxable years ending after June 30, 1941.

TITLE IV—ESTATE AND GIFT TAXES

SEC. 401. ESTATE TAX RATES.

(a) RATES.—Section 935 (b) of the Internal Revenue Code is amended to read as follows:

"(b) The tentative tax referred to in subsection (a) (1) of this section shall be the tentative tax shown in the following table:

"If the net estate is:	The tentative tax shall be:
Not over $5,000	3% of the net estate.
Over $5,000 but not over $10,000	$150, plus 7% of excess over $5,000.
Over $10,000 but not over $20,000	$500, plus 11% of excess over $10,000.
Over $20,000 but not over $30,000	$1,600, plus 14% of excess over $20,000.
Over $30,000 but not over $40,000	$3,000, plus 18% of excess over $30,000.
Over $40,000 but not over $50,000	$4,800, plus 22% of excess over $40,000.
Over $50,000 but not over $60,000	$7,000, plus 25% of excess over $50,000.
Over $60,000 but not over $100,000	$9,500, plus 28% of excess over $60,000.
Over $100,000 but not over $250,000	$20,700, plus 30% of excess over $100,000.
Over $250,000 but not over $500,000	$65,700, plus 32% of excess over $250,000.
Over $500,000 but not over $750,000	$145,700, plus 35% of excess over $500,000.
Over $750,000 but not over $1,000,000	$233,200, plus 37% of excess over $750,000.
Over $1,000,000 but not over $1,250,000.	$325,700, plus 39% of excess over $1,000,000.
Over $1,250,000 but not over $1,500,000.	$423,200, plus 42% of excess over $1,250,000.
Over $1,500,000 but not over $2,000,000.	$528,200, plus 45% of excess over $1,500,000.
Over $2,000,000 but not over $2,500,000.	$753,200, plus 49% of excess over $2,000,000.
Over $2,500,000 but not over $3,000,000.	$998,200, plus 53% of excess over $2,500,000.
Over $3,000,000 but not over $3,500,000.	$1,263,200, plus 56% of excess over $3,000,000.
Over $3,500,000 but not over $4,000,000.	$1,543,200, plus 59% of excess over $3,500,000.
Over $4,000,000 but not over $5,000,000.	$1,838,200, plus 63% of excess over $4,000,000.

"If the net estate is:	The tentative tax shall be:
Over $5,000,000 but not over $6,000,000.	$2,468,200, plus 67% of excess over $5,000,000.
Over $6,000,000 but not over $7,000,000.	$3,138,200, plus 70% of excess over $6,000,000.
Over $7,000,000 but not over $8,000,000.	$3,838,200, plus 73% of excess over $7,000,000.
Over $8,000,000 but not over $10,000,000.	$4,568,200, plus 76% of excess over $8,000,000.
Over $10,000,000	$6,088,200, plus 77% of excess over $10,000,000."

(b) DEFENSE TAX REPEALED.—Subchapter C of Chapter 3 of the Internal Revenue Code is repealed.

(c) EFFECTIVE DATE.—Subsections (a) and (b) shall be effective only with respect to estates of decedents dying after the date of the enactment of this Act.

SEC. 402. GIFT TAX RATES.

(a) RATES.—The Rate Schedule of section 1001 of the Internal Revenue Code is amended to read as follows:

"If the net gifts are:	The tax shall be:
Not over $5,000	2¼% of the net gifts.
Over $5,000 but not over $10,000	$112.50, plus 5¼% of excess over $5,000.
Over $10,000 but not over $20,000	$375, plus 8¼% of excess over $10,000.
Over $20,000 but not over $30,000	$1,200, plus 10½% of excess over $20,000.
Over $30,000 but not over $40,000	$2,250, plus 13½% of excess over $30,000.
Over $40,000 but not over $50,000	$3,600, plus 16½% of excess over $40,000.
Over $50,000 but not over $60,000	$5,250, plus 18¾% of excess over $50,000.
Over $60,000 but not over $100,000	$7,125, plus 21% of excess over $60,000.
Over $100,000 but not over $250,000	$15,525, plus 22½% of excess over $100,000.
Over $250,000 but not over $500,000	$49,275, plus 24% of excess over $250,000.
Over $500,000 but not over $750,000	$109,275, plus 26¼% of excess over $500,000.
Over $750,000 but not over $1,000,000	$174,900, plus 27¾% of excess over $750,000.
Over $1,000,000 but not over $1,250,000.	$244,275, plus 29¼% of excess over $1,000,000.
Over $1,250,000 but not over $1,500,000.	$317,400, plus 31½% of excess over $1,250,000.
Over $1,500,000 but not over $2,000,000.	$396,150, plus 33¾% of excess over $1,500,000.
Over $2,000,000 but not over $2,500,000.	$564,900, plus 36¾% of excess over $2,000,000.
Over $2,500,000 but not over $3,000,000.	$748,650, plus 39¾% of excess over $2,500,000.
Over $3,000,000 but not over $3,500,000.	$947,400, plus 42% of excess over $3,000,000.
Over $3,500,000 but not over $4,000,000.	$1,157,400, plus 44¼% of excess over $3,500,000.
Over $4,000,000 but not over $5,000,000.	$1,378,650, plus 47¼% of excess over $4,000,000.
Over $5,000,000 but not over $6,000,000.	$1,851,150, plus 50¼% of excess over $5,000,000.

"If the net gifts are:				The tax shall be:
Over $6,000,000 but not over $7,000,000.				$2,353,650, plus 52½% of excess over $6,000,000.
Over $7,000,000 but not over $8,000,000.				$2,878,650, plus 54¼% of excess over $7,000,000.
Over $8,000,000 but not over $10,000,000.				$3,426,150, plus 57% of excess over $8,000,000.
Over $10,000,000				$4,566,150, plus 57¾% of excess over $10,000,000."

(b) YEARS TO WHICH AMENDMENTS APPLICABLE.—The amendments made by this section shall be applied in computing the tax for the calendar year 1942 and each calendar year thereafter (but not the tax for the calendar year 1941 or a previous calendar year), and such amendments shall be applied in all computations in respect of the calendar year 1941 and previous calendar years for the purpose of computing the tax for the calendar year 1942 and any calendar year thereafter.

(c) DEFENSE TAX REPEALED.—Section 1001 (d) of the Internal Revenue Code (relating to defense tax for five years on gifts) is repealed.

TITLE V—EXCISE TAXES

Part I—1932 Excise Taxes Made Permanent

SEC. 501. 1932 EXCISE TAXES MADE PERMANENT.

Section 3452 of the Internal Revenue Code (relating to expiration of 1932 excise taxes) is repealed.

SEC. 502. PIPE LINE TAX.

Section 3460 (a) of the Internal Revenue Code (relating to termination of tax on transportation by pipe line) is amended by striking out "originating before July 1, 1945".

SEC. 503. TECHNICAL AMENDMENT.

The heading of Subtitle C of the Internal Revenue Code is amended to read as follows:

"SUBTITLE C—MANUFACTURERS' EXCISE AND IMPORT TAXES AND TEMPORARY TAXES"

SEC. 504. BOND TAX.

Section 3481 (b) of the Internal Revenue Code (relating to expiration of tax on transfer of bonds) is repealed.

SEC. 505. CONVEYANCE TAX.

Section 3482 of the Internal Revenue Code (relating to tax on conveyances) is amended by striking out "delivered before July 1, 1945".

Part II—Defense Tax Rates Made Permanent (No Increase in Tax and No Change in Basis of Tax)

SEC. 521. DEFENSE EXCISE TAX RATES MADE PERMANENT WHICH ARE NOT INCREASED BY THIS ACT.

(a) The following sections of the Internal Revenue Code are amended as follows:

(1) BOX SEATS.—Section 1700 (b) (1) is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

(2) SALES OUTSIDE BOX OFFICE.—Section 1700 (c) (1) is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

(3) CORPORATE SECURITIES.—Section 1801 is amended by striking out "10 cents until July 1, 1945, and 5 cents thereafter" and inserting in lieu thereof "11 cents".

(4) CAPITAL STOCK ISSUES.—Section 1802 (a) is amended by striking out "10 cents until July 1, 1945, and 5 cents thereafter" and the comma wherever following such expression and inserting in lieu thereof "11 cents"; and by striking out "2 cents until July 1, 1945, and 1 cent thereafter," and inserting in lieu thereof "3 cents".

(5) CAPITAL STOCK TRANSFERS.—Section 1802 (b) is amended by striking out "4 cents until July 1, 1945, and 2 cents thereafter," and inserting in lieu thereof "5 cents"; and by striking out "5 cents instead of 4 cents until July 1, 1945" and inserting in lieu thereof "6 cents".

(6) INSURANCE POLICIES.—Section 1804 is amended by striking out "3 cents" and inserting in lieu thereof "4 cents".

(7) PASSAGE TICKETS.—Section 1806 is amended by striking out "$1" and inserting in lieu thereof "$1.10"; by striking out "$3" and inserting in lieu thereof "$3.30"; and by striking out "$5" and inserting in lieu thereof "$5.50".

(8) CIGARETTES.—Section 2000 (c) (2) is amended by striking out "$3" and inserting in lieu thereof "$3.25" and by striking out "$7.20" and inserting in lieu thereof "$7.80".

(9) PISTOLS AND REVOLVERS.—Section 2700 (a) is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

(10) FERMENTED MALT LIQUORS.—Section 3150 (a) is amended by striking out "$5" and inserting in lieu thereof "$6".

(11) WHOLESALERS OF LIQUOR.—Section 3250 (a) (1) is amended by striking out "$100" and inserting in lieu thereof "$110".

(12) RETAILERS OF LIQUOR.—Section 3250 (b) is amended by striking out "$25" and inserting in lieu thereof "$27.50".

(13) BREWERS.—Section 3250 (c) is amended by striking out "$100" and inserting in lieu thereof "$110" and by striking out "$50" and inserting in lieu thereof "$55".

(14) WHOLESALERS OF MALT LIQUORS.—Section 3250 (d) is amended by striking out "$50" and inserting in lieu thereof "$55".

(15) RETAILERS OF MALT LIQUORS.—Section 3250 (e) (1) is amended by striking out "$20" and inserting in lieu thereof "$22",

and section 3250 (e) (3) is amended by striking out "$2" and inserting in lieu thereof "$2.20".

(16) RECTIFIERS.—Section 3250 (f) (1) is amended by striking out "$200" and inserting in lieu thereof "$220"; and by striking out "$100" and inserting in lieu thereof "$110".

(17) STILLS.—Section 3250 (j) is amended by striking out "$50" and inserting in lieu thereof "$55"; and by striking out "$20" and inserting in lieu thereof "$22".

(18) FIREARMS, ETC.—Section 3407 is amended by striking out "10 per centum" and inserting in lieu thereof "11 per centum".

(19) ELECTRICAL ENERGY.—Section 3411 is amended by striking out "3 per centum" and inserting in lieu thereof "3⅓ per centum".

(20) GASOLINE.—Section 3412 (a) is amended by striking out "1 cent" and inserting in lieu thereof "1½ cents".

(21) LUBRICATING OILS.—Section 3413 is amended by striking out "4 cents" and inserting in lieu thereof "4½ cents".

(22) TRANSPORTATION OF OIL BY PIPE LINE.—Section 3460 (a) is amended by striking out "4 per centum" and inserting in lieu thereof "4½ per centum".

(23) TRANSFER OF BONDS.—Section 3481 (a) is amended by striking out "4 cents" and inserting in lieu thereof "5 cents".

(24) CONVEYANCES.—Section 3482 is amended by striking out "50 cents" and inserting in lieu thereof "55 cents".

(b) The rates specified in subsection (a) shall be applicable only with respect to the period after the date of the enactment of this Act, and the rates specified in section 1650 (a), section 2004, and section 3190 of the Internal Revenue Code shall not apply with respect to such period.

Part III—Increases in Rates of Existing Excise Taxes

SEC. 531. PLAYING CARDS.

Section 1807 (a) of the Internal Revenue Code is amended by striking out "10 cents" and inserting in lieu thereof "13 cents".

SEC. 532. SAFE DEPOSIT BOXES.

Section 1850 (a) of the Internal Revenue Code is amended by striking out "10 per centum" and inserting in lieu thereof "20 per centum".

SEC. 533. DISTILLED SPIRITS.

(a) RATE ON DISTILLED SPIRITS.—Section 2800 (a) (1) of the Internal Revenue Code is amended by striking out "at the rate of $2.25 (and on brandy at the rate of $2)" and by inserting in lieu thereof "at the rate of $4", and by striking out "(except brandy)".

(b) RATE ON IMPORTED PERFUMES CONTAINING ALCOHOL.—Section 2800 (a) (3) of the Internal Revenue Code is amended by striking out "$2.25" and inserting in lieu thereof "$4".

(c) DRAWBACK ON DISTILLED SPIRITS.—The third paragraph of section 2887 of the Internal Revenue Code is amended by striking out "but shall not exceed a rate of $3 (or, in the case of brandy, $2.75)" and inserting in lieu thereof "but shall not exceed a rate of $4".

(d) FLOOR STOCKS TAX.—Section 2800 of the Internal Revenue Code is amended by inserting at the end thereof the following new subsection:

"(i) FLOOR STOCKS TAX.—

"(1) Upon all distilled spirits upon which the internal-revenue tax imposed by law has been paid, and which on October 1, 1941, are held and intended for sale or for use in the manufacture or production of any article intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax of $1 (except that in the case of brandy, the rate shall be $1.25) on each proof-gallon, and a proportionate tax at a like rate on all fractional parts of such proof-gallon.

"(2) Every person required by this subsection to pay any floor stocks tax shall, on or before January 1, 1942, under such regulations as the Commissioner, with the approval of the Secretary, shall prescribe, make a return and pay such tax. Payment of the tax shown to be due may be extended to a date not later than August 1, 1942, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Commissioner, with the approval of the Secretary, may prescribe.

"(3) All provisions of law, including penalties, applicable in respect of internal-revenue taxes on distilled spirits shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the floor stocks tax imposed hereunder. For the purposes of this subsection the term 'distilled spirits' shall include products produced in such manner that the person producing them is a rectifier within the meaning of section 3254 (g)."

SEC. 534. WINES.

(a) RATE ON STILL WINES.—Section 3030 (a) (1) (A) of the Internal Revenue Code is amended by striking out "5 cents" and inserting in lieu thereof "8 cents"; by striking out "15 cents" and inserting in lieu thereof "30 cents"; and by striking out "25 cents" and inserting in lieu thereof "65 cents".

(b) RATE ON SPARKLING WINES, LIQUEURS, CORDIALS, ETC.—Section 3030 (a) (2) of the Internal Revenue Code is amended by striking out "2½ cents" and inserting in lieu thereof "7 cents"; and by striking out "1¼ cents" and inserting in lieu thereof "3½ cents".

(c) Subchapter F of Chapter 26 of the Internal Revenue Code is amended by inserting at the end thereof the following new section:

"SEC. 3192. FLOOR STOCKS TAX ON WINES.

"(a) FLOOR STOCKS TAX.—Upon all wines upon which the internal-revenue tax imposed by law has been paid, and which on October 1, 1941, are held and intended for sale or for use in the manufacture or production of an article intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax at rates equal to the increases in rates of tax (over the defense tax rates) made applicable to such articles by section 534 of the Revenue Act of 1941.

"(b) RETURNS.—Every person required by subsection (a) to pay any floor stocks tax shall, on or before January 1, 1942, under such regulations as the Commissioner, with the approval of the Secretary,

shall prescribe, make a return and pay such tax. Payment of the tax shown to be due may be extended to a date not later than August 1, 1942, upon the filing of a bond for payment thereof in such form and amount and with such surety or sureties as the Commissioner, with the approval of the Secretary, may prescribe.

"(c) LAWS APPLICABLE.—All provisions of law, including penalties, applicable in respect of the taxes imposed by section 3030 (a) shall, insofar as applicable and not inconsistent with this subsection, be applicable with respect to the floor stocks tax imposed by subsection (a)."

SEC. 535. TIRES AND TUBES.

(a) RATE ON TIRES.—Section 3400 (1) of the Internal Revenue Code is amended by striking out "2¼ cents" and inserting in lieu thereof "5 cents".

(b) RATE ON TUBES.—Section 3400 (2) of the Internal Revenue Code is amended by striking out "4 cents" and inserting in lieu thereof "9 cents".

(c) FLOOR STOCKS TAX ON TIRES AND INNER TUBES.—Section 3400 of the Internal Revenue Code is amended by inserting "(a) TAX.—" before the beginning thereof and by inserting at the end thereof the following:

"(b) FLOOR STOCKS TAX.—Upon tires and inner tubes subject to tax under subsection (a) of the type used on vehicles subject to tax under section 3403 (a) or (b) which on October 1, 1941, are held for sale by any person there shall be levied, assessed, collected, and paid a floor stocks tax at the rate of 2½ cents per pound in the case of tires and 4½ cents per pound in the case of inner tubes. The tax shall apply to tires and inner tubes held for sale on, or in connection with, or held for use in the manufacture or production of, articles the sale of which will be subject to tax under section 3403 (a) or (b). The tax shall not apply to tires and inner tubes held for sale by the manufacturer, producer, or importer thereof, and to tires and inner tubes the sale of which will be subject under the provisions of sections 3444 (a) (2) and 3445 to the manufacturers' tax on tires and inner tubes."

SEC. 536. EFFECTIVE DATE OF PART III.

The amendments made by this Part shall be applicable only with respect to the period beginning with October 1, 1941, and the rates specified in section 1650 (a), section 1807 (b), section 2004, section 2800 (g), and section 3190 of the Internal Revenue Code shall not apply with respect to such period. This Part shall take effect on October 1, 1941.

Part IV—Changes in Basis of Computing Tax (Rates Increased in Certain Cases)

SEC. 541. ADMISSIONS TAX.

(a) REDUCTION OF EXEMPTION.—Section 1700 (a) (1) of the Internal Revenue Code is amended to read as follows:

"(1) RATE.—A tax of 1 cent for each 10 cents or fraction thereof of the amount paid for admission to any place, including

admission by season ticket or subscription. In the case of persons (except bona fide employees, municipal officers on official business, children under twelve years of age, members of the military or naval forces of the United States when in uniform, and members of the Civilian Conservation Corps when in uniform) admitted free or at reduced rates to any place at any time when and under circumstances under which an admission charge is made to other persons, an equivalent tax shall be collected based on the price so charged to such other persons for the same or similar accommodations, to be paid by the person so admitted. No tax shall be imposed on the amount paid for the admission of a child under twelve years of age if the amount paid is less than 10 cents."

(b) TERMINATION OF EXEMPTIONS.—Section 1701 of the Internal Revenue Code (relating to exemptions from admissions tax) shall not apply with respect to amounts paid, on or after the effective date of this Part, for admission.

(c) EXEMPTION OF NATIONAL PARK, ETC., ADMISSIONS TERMINATED.—The Interior Department Appropriation Act, 1942, is amended by striking out that part thereof under the heading "NATIONAL PARK SERVICE" which reads as follows:

"Hereafter fees incident to admission to the national parks and monuments and other areas in the national park system, charged and collected with the approval of the Secretary of the Interior, shall be exempt from all Federal tax on admissions."

The Act entitled "An Act making appropriations for the Department of the Interior for the fiscal year ending June 30, 1936, and for other purposes", approved May 9, 1935, is amended by striking out that part thereof under the heading "NATIONAL PARK SERVICE" which reads as follows: ": *Provided*, That any admission fee charged for entrance to Carlsbad Caverns and any fee charged for guide service therein, shall be exempt from all taxes on admissions".

SEC. 542. CABARET, ROOF GARDEN, ETC., TAX.

(a) IMPOSITION.—Section 1700 (c) of the Internal Revenue Code is amended to read as follows:

"(c) TAX ON CABARETS, ROOF GARDENS, ETC.—

"(1) RATE.—A tax equivalent to 5 per centum of all amounts paid for admission, refreshment, service, and merchandise, at any roof garden, carbaret, or other similar place furnishing a public performance for profit, if any payment, or part thereof, for admission, refreshment, service, or merchandise, entitles the patron to be present during any portion of such performance. No tax shall be applicable under subsection (a) (1) on account of an amount paid with respect to which tax is imposed under this subsection.

"(2) BY WHOM PAID.—The tax imposed under paragraph (1) shall be returned and paid by the person receiving such payments."

(b) PLACE OF PAYMENT.—Section 1715 (b) of the Internal Revenue Code is amended to read as follows:

"(b) PLACE OF PAYMENT.—The taxes collected under subsection (a), and the taxes required to be paid under section 1700 (c), (d),

or (e), shall be paid to the collector of the district in which the principal office or place of business is located."

(c) RETURNS.—Section 1716 (a) of the Internal Revenue Code is amended to read as follows:

"(a) REQUIREMENT.—Every person required under subsection (a) of section 1715 to collect the taxes, or required under section 1700 (c), (d), or (e) to pay the taxes, imposed by this chapter shall make returns under oath, in duplicate, in such manner and containing such information as the Commissioner, with the approval of the Secretary, may, by regulation, prescribe."

(d) Section 1700 (c) (3) and section 1700 (d) (3) of the Internal Revenue Code are repealed as of the effective date of this Part.

SEC. 543. CLUB DUES.

(a) REDUCTION OF EXEMPTION AND DEFENSE TAX RATE MADE PERMANENT.—Section 1710 (a) (1) and (2) of the Internal Revenue Code are amended to read as follows:

"(1) DUES OR MEMBERSHIP FEES.—A tax equivalent to 11 per centum of any amount paid as dues or membership fees to any social, athletic, or sporting club or organization, if the dues or fees of an active resident annual member are in excess of $10 per year.

"(2) INITIATION FEES.—A tax equivalent to 11 per centum of any amount paid as initiation fees to such a club or organization, if such fees amount to more than $10, or if the dues or membership fees, not including initiation fees, of an active resident annual member are in excess of $10 per year."

(b) DEFINITION OF DUES.—Section 1712 (a) of the Internal Revenue Code is amended to read as follows:

"(a) DUES.—The term 'dues' includes any assessment, irrespective of the purpose for which made, and any charges for social privileges or facilities, or for golf, tennis, polo, swimming, or other athletic or sporting privileges or facilities, for any period of more than six days; and".

SEC. 544. AUTOMOBILE, TRUCK, BUS, AND PARTS TAX.

(a) INCREASE OF RATE AND CLASSIFICATION OF BUSSES.—Section 3403 (a) and (b) of the Internal Revenue Code are amended to read as follows:

"(a) Automobile truck chassis, automobile truck bodies, automobile bus chassis, automobile bus bodies, truck and bus trailer and semitrailer chassis, truck and bus trailer and semitrailer bodies, tractors of the kind chiefly used for highway transportation in combination with a trailer or semitrailer (including in each of the above cases parts or accessories therefor sold on or in connection therewith or with the sale thereof), 5 per centum. A sale of an automobile truck, bus, or truck or bus trailer or semitrailer, shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body.

"(b) Other automobile chassis and bodies, chassis and bodies for trailers or semitrailers suitable for use in connection with passenger automobiles, and motorcycles (including in each case parts or acces-

sories therefor sold on or in connection therewith or with the sale thereof), except tractors, 7 per centum. A sale of an automobile, trailer, or semitrailer shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body."

(b) INCREASE IN RATE ON PARTS AND EXCLUSION OF RADIOS FROM AUTOMOBILE TAX.—The first sentence of section 3403 (c) of the Internal Revenue Code is amended to read as follows: "Parts or accessories (other than tires and inner tubes and other than radios) for any of the articles enumerated in subsection (a) or (b), 5 per centum."

(c) CREDITS ON ACCOUNT OF TIRE AND TUBE TAX.—Section 3403 (e) of the Internal Revenue Code is amended to read as follows:

"(e) If tires or inner tubes on which tax has been imposed under this chapter are sold on or in connection with, or with the sale of, a chassis, body, or motorcycle, there shall (under regulations prescribed by the Commissioner, with the approval of the Secretary) be credited against the tax under this section an amount equal to, in the case of an article taxable under subsection (a), 5 per centum, and in the case of an article taxable under subsection (b), 7 per centum—

"(1) of the purchase price (less, in the case of tires, the part of such price attributable to the metal rim or rim base) if such tires or inner tubes were taxable under section 3400 (relating to tax on tires and inner tubes); or

"(2) if such tires or inner tubes were taxable under section 3444 (relating to use by manufacturer, producer, or importer) then of the price (less, in the case of tires, the part of such price attributable to the metal rim or rim base) at which such or similar tires or inner tubes are sold, in the ordinary course of trade, by manufacturers, producers, or importers thereof, as determined by the Commissioner. In lieu of the rates of credit of 5 per centum and 7 per centum above provided, the rates, respectively, for the following periods, shall be as follows:

"(A) With respect to the period after June 30, 1940, and before the effective date of the increase in tax on automobiles made by the Revenue Act of 1941, 2½ per centum and 3½ per centum; and

"(B) With respect to the period before July 1, 1940, 2 per centum and 3 per centum."

(d) CREDITS ON TERMINATION OF TAX.—Section 3403 (f) of the Internal Revenue Code (relating to credits and refunds on termination of automobile tax) is repealed.

SEC. 545. RADIOS, PHONOGRAPHS, RECORDS, AND MUSICAL INSTRUMENTS.

Section 3404 of the Internal Revenue Code is amended to read as follows:

"SEC. 3404. TAX ON RADIO RECEIVING SETS, PHONOGRAPHS, PHONOGRAPH RECORDS, AND MUSICAL INSTRUMENTS.

"There shall be imposed upon the following articles (including in each case, except in the case of musical instruments, parts or accessories therefor sold on or in connection with the sale thereof) sold

by the manufacturer, producer, or importer a tax equivalent to 10 per centum of the price for which sold:

"(a) Radio receiving sets, automobile radio receiving sets, combination radio and phonograph sets, and phonographs.

"(b) Chassis, cabinets, tubes, reproducing units, power packs, antennae of the 'built-in' type, and phonograph mechanisms, which are suitable for use on or in connection with, or as component parts of, any of the articles enumerated in subsection (a), whether or not primarily adapted for such use.

"(c) Phonograph records.

"(d) Musical instruments."

SEC. 546. MECHANICAL REFRIGERATORS.

Section 3405 of the Internal Revenue Code is amended to read as follows:

"SEC. 3405. TAX ON REFRIGERATORS, REFRIGERATING APPARATUS, AND AIR-CONDITIONERS.

"There shall be imposed on the following articles (including in each case parts or accessories therefor sold on or in connection with the sale thereof) sold by the manufacturer, producer, or importer a tax equivalent to 10 per centum of the price for which so sold:

"(a) REFRIGERATORS, ETC.—Refrigerators, beverage coolers, ice cream cabinets, water coolers, food and beverage display cases, food and beverage storage cabinets, ice making machines, and milk cooler cabinets, each such article having, or being primarily designed for use with, a mechanical refrigerating unit operated by electricity, gas, kerosene, or gasoline.

"(b) REFRIGERATING APPARATUS.—Compressors, condensers, evaporators, expansion units, absorbers, and controls, for, or suitable for use as part of, or with, a refrigerating plant, refrigerating system, refrigerating equipment or unit, or any of the articles enumerated in subsection (a).

"(c) AIR-CONDITIONERS.—Self-contained air-conditioning units.

"(d) COMPONENTS.—Cabinets, compressors, condensers, fans, blowers, heating coils, cooling coils, filters, humidifiers, and controls, for, or suitable for use as part of, or with, any of the articles enumerated in subsection (c)."

SEC. 547. MATCHES.

Section 3409 of the Internal Revenue Code is amended to read as follows:

"SEC. 3409. TAX ON MATCHES.

"(a) MANUFACTURERS' TAX.—There shall be imposed upon matches sold by the manufacturer, producer, or importer, a tax of 2 cents per 1,000 matches, except that in the case of fancy wooden matches and wooden matches having a stained, dyed, or colored stick or stem, packed in boxes or in bulk, the tax shall be 5½ cents per 1,000 matches.

"(b) FLOOR STOCKS TAX.—On matches subject to tax under subsection (a) which, on October 1, 1941, are held and intended for sale, or for disposition in connection with the sale of other articles, there shall

be levied, assessed, collected, and paid a floor stocks tax at the rate of 2 cents per thousand matches. The tax shall not apply to matches in retail stocks held at the place where intended to be sold or disposed of. The tax shall not apply to matches held for sale by the manufacturer, producer, or importer thereof, nor to fancy wooden matches or wooden matches having a stained, dyed, or colored stick or stem."

SEC. 548. TELEPHONE, TELEGRAPH, ETC.

Sections 3465 and 3466 of the Internal Revenue Code are amended to read as follows:

"SEC. 3465. IMPOSITION AND RATE OF TAX.

"(a) There shall be imposed:

"(1) (A) In the case of each telephone or radio telephone message or conversation which originates within the United States, for which the charge is more than 24 cents, a tax of 5 cents for each 50 cents, or fraction thereof, of the charge.

"(B) In the case of each telegraph, cable, or radio dispatch or message which originates within the United States, a tax of 10 per centum of the amount of the charge.

Only one payment of a tax imposed by subparagraph (A) or (B) shall be required notwithstanding the lines or stations of one or more persons are used in the transmission of such dispatch, message, or conversation.

"(2) (A) A tax equivalent to 10 per centum of the amount paid for leased wire, teletypewriter, or talking circuit special service.

"(B) A tax equivalent to 5 per centum of the amount paid for any wire and equipment service (including stock quotation and information services, burglar alarm or fire alarm service, and all other similar services, but not including service described in subparagraph (A)).

The tax shall apply under this paragraph whether or not the wires or services are within a local exchange area.

"(3) A tax equivalent to 6 per centum of the amount paid by subscribers for local telephone service and for any other telephone service in respect of which a tax is not payable under paragraph (1) or (2). Amounts paid for the installation of instruments, wires, poles, switchboards, apparatus, and equipment shall not be considered amounts paid for service. Service paid for by inserting coins in coin-operated telephones shall not be subject to the tax imposed by this paragraph.

"(b) This section shall not apply to the amount paid for so much of the service described in paragraph (2) of subsection (a) as is utilized in the conduct, by a common carrier or telephone or telegraph company or a radio broadcasting station or network, of its business as such.

"SEC. 3466. EXEMPTION FROM TAX.

"(a) No tax shall be imposed under section 3465 upon any payment received for services or facilities furnished to the United States

or to any State or Territory, or political subdivision thereof, or the District of Columbia.

"(b) No tax shall be imposed under section 3465 (a) (1) and (2) upon any payment received from any person for services or facilities utilized in the collection of news for the public press, or a news ticker service furnishing a general news service similar to that of the public press, or radio broadcasting, or in the dissemination of news through the public press, or a news ticker service furnishing a general news service similar to that of the public press, or by means of radio broadcasting, if the charge for such services or facilities is billed in writing to such person. Section 3465 (a) (3) shall not be construed as imposing a tax on services and facilities described in section 3465 (a) (1) or (2) which are exempt from tax under this subsection.

"(c) The right to exemption under this section shall be evidenced in such manner as the Commissioner with the approval of the Secretary may by regulation prescribe."

SEC. 549. INSTALLMENT, ETC., PAYMENTS.

Section 3441 (c) of the Internal Revenue Code is amended to read as follows:

"(c) (1) In the case of (A) a lease, (B) a contract for the sale of an article wherein it is provided that the price shall be paid by installments and title to the article sold does not pass until a future date notwithstanding partial payment by installments, or (C) a conditional sale, there shall be paid upon each payment with respect to the article that portion of the total tax which is proportionate to the portion of the total amount to be paid represented by such payment.

"(2) In the application of paragraph (1) to the articles with respect to which the rate of tax is increased by the Revenue Act of 1941 or by the Revenue Act of 1940, where the lease, contract of sale, or conditional sale, and delivery thereunder—

"(A) was made before July 1, 1940, the total tax referred to in paragraph (1) shall be the tax at the rate in force on June 30, 1940, and not at any greater rate; or

"(B) was made after June 30, 1940, and before October 1, 1941, the total tax referred to in paragraph (1) shall be the tax at the rate in force on September 30, 1941, and not at any greater rate.

"(3) Despite the provisions of paragraph (1), no tax shall be imposed with respect to any article not taxable under the law in existence on the day before the date of the enactment of the Revenue Act of 1941, if with respect to such article the lease, contract for sale, or conditional sale, and delivery thereunder, was made before October 1, 1941."

SEC. 550. EFFECTIVE DATE OF PART IV.

(a) The amendments made by this Part shall be applicable only with respect to the period beginning with the effective date of this Part, and the rates specified in section 1650 (a), section 1807 (b), section 2004, section 2800 (g), and section 3190 of the Internal Revenue Code shall not apply with respect to such period. This Part shall take effect on October 1, 1941.

(b) Despite the provisions of subsection (a), the tax imposed by section 1700 (e) of the Internal Revenue Code, as amended by section 542 of this Act (relating to cabaret, etc., tax), shall be applicable only with respect to the period beginning at 10 a. m. on October 1, 1941, and the tax imposed by such subsection as in force prior to its amendment by section 542 of this Act, as modified by section 1650 (a) of the Internal Revenue Code, shall be applicable with respect to the period before 10 a. m. on such date.

(c) Despite the provisions of subsection (a), the amendment of section 3465 (a) (2) made by section 548 of this Act (relating to tax on leased-wire, etc., services) shall be applicable only to amounts paid on or after such effective date for services rendered, on or after October 1, 1941, and the provisions of such subsection before its amendment by section 548 shall be applicable with respect to the period before October 1, 1941.

(d) Despite the provisions of subsection (a), section 3465 (a) (3) of the Internal Revenue Code (relating to tax on telephone bills), added to the Internal Revenue Code by section 548 of this Act, shall apply only to the amounts paid in pursuance of bills rendered, after October 5, 1941, for services for which no previous bill was rendered. Such section 3465 (a) (3) shall not apply to amounts paid for services otherwise taxable under section 3465 (a) (1) which were rendered before October 6, 1941; nor to amounts paid for services otherwise taxable under section 3465 (a) (2) which were rendered or paid for before October 6, 1941.

Part V—New Excise Taxes

SEC. 551. NEW MANUFACTURERS' EXCISE TAXES.

Subchapter A of Chapter 29 of the Internal Revenue Code is amended by inserting after section 3405 the following new section:

"SEC. 3406. EXCISE TAXES IMPOSED BY THE REVENUE ACT OF 1941.

"(a) IMPOSITION.—There shall be imposed on the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to the rate, on the price for which sold, set forth in the following paragraphs (including in each case parts or accessories of such articles sold on or in connection therewith, or with the sale thereof):

"(1) SPORTING GOODS.—Badminton nets; badminton rackets (measuring 22 inches over-all or more in length); badminton racket frames (measuring 22 inches over-all or more in length); badminton racket string; badminton shuttlecocks, badminton standards; baseballs; baseball bats (measuring 26 inches or more in length); baseball body protectors and shin guards; baseball gloves and mitts; baseball masks; basketballs; billiard and pool tables (measuring 45 inches over-all or more in length); billiard and pool balls and cues for such tables; bowling balls and pins; boxing gloves, masks, head guards, and ear guards; clay pigeons; cricket balls; cricket bats; croquet balls and mallets; curling stones; deck tennis rings, nets, and posts; fencing equipment; fishing rods, creels, reels, and artificial lures, baits, and flies; footballs; football harness; football helmets;

golf bags (measuring 26 inches or more in length); golf balls; golf clubs (measuring 30 inches or more in length); gymnasium equipment and apparatus; hockey balls; hockey pucks; hockey sticks (measuring 30 inches or more in length); indoor baseballs; indoor baseball bats (measuring 26 inches or more in length); indoor baseball gloves and mitts; lacrosse balls; lacrosse sticks; mass balls; polo balls; polo mallets; push balls; skates; skis; ski poles; snow shoes; snow toboggans and sleds; soccer balls; softball balls; softball bats (measuring 26 inches or more in length); softball gloves and mitts; squash balls; squash rackets (measuring 22 inches over-all or more in length); squash racket frames (measuring 22 inches over-all or more in length); squash racket string; tennis balls; table tennis tables, balls, nets, and paddles; tennis nets; tennis rackets (measuring 22 inches over-all or more in length); tennis racket frames (measuring 22 inches over-all or more in length); tennis racket string; track hurdles; traps for throwing clay pigeons; vaulting poles, cross bars, and standards; volley balls, nets, and standards; water polo balls and goals; and wrestling head harness; 10 per centum.

"(2) LUGGAGE.—Trunks, valises, traveling bags, suitcases, hat boxes for use by travelers, fitted toilet cases (not including contents), and other traveler's luggage, and leather and imitation leather brief cases, 10 per centum.

"(3) ELECTRIC, GAS, AND OIL APPLIANCES.—Electric direct motor-driven fans and air circulators; electric, gas, or oil water heaters; electric flat irons; electric air heaters (not including furnaces); electric immersion heaters; electric heating pads and blankets; electric, gas, or oil appliances of the type used for cooking, warming, or keeping warm food or beverages for consumption on the premises; electric mixers, whippers, and juicers; and household type electric vacuum cleaners; 10 per centum.

"(4) PHOTOGRAPHIC APPARATUS.—Cameras and lenses; unexposed photographic films (including motion picture films but not including X-ray film), photographic plates and sensitized paper; photographic apparatus and equipment; and any apparatus or equipment designed especially for use in the taking of photographs or motion pictures or in the developing, printing, or enlarging of photographs or motion picture films; 10 per centum.

"(5) ELECTRIC SIGNS.—Neon-tube signs, electric signs, and electric advertising devices, 10 per centum.

"(6) BUSINESS AND STORE MACHINES.—Adding machines, addressing machines, autographic registers, bank proof machines, billing machines, bookkeeping machines, calculating machines, card punching machines, cash registers, change making machines, check writing machines, check signing machines, check canceling machines, check perforating machines, check cutting machines, check dating machines, other check protector machine devices, computing machines, coin counters, dictographs, dictating machine record shaving machines, dictating machines, duplicating machines, embossing machines, envelope opening machines, erasing machines, folding machines, fanfold machines, fare registers, fare boxes, listing machines, line-a-time and similar machines, mailing machines, multigraph machines, multigraph typesetting

machines, multigraph type justifying machines, numbering machines, portable paper fastening machines, pay roll machines, pencil sharpeners, postal permit mailing machines, punch card machines, sorting machines, stencil cutting machines, shorthand writing machines, sealing machines, tabulating machines, ticket counting machines, ticket issuing machines, typewriters, transcribing machines, time recording devices, and combinations of any of the foregoing, 10 per centum.

"(7) RUBBER ARTICLES.—Articles of which rubber is the component material of chief weight, 10 per centum. The tax imposed under this paragraph shall not be applicable to footwear, articles designed especially for hospital or surgical use, or articles taxable under any other provision of this chapter.

"(8) WASHING MACHINES.—Washing machines of the kind used in commercial laundries, 10 per centum. No tax shall be imposed under this paragraph on washing machines of the household type.

"(9) OPTICAL EQUIPMENT.—Refractometers; spectrometers; spectroscopes; colorimeters; polariscopes; optical measuring instruments; telescopic sights; projection lenses and prisms; optical machinery; microscopes; telescopes; photo-micro and micro-projection apparatus; fire control optical instruments; and searchlight mirrors and reflectors; 10 per centum.

"(10) ELECTRIC LIGHT BULBS AND TUBES.—Electric light bulbs and tubes, not including articles taxable under any other provision of this subchapter, 5 per centum.

"(b) EXEMPTION IF ARTICLE TAXABLE AS JEWELRY.—No tax shall be imposed under this section on any article taxable under section 2400 (relating to jewelry tax).

"(c) EFFECTIVE DATE.—This section shall take effect on October 1, 1941."

SEC. 552. NEW RETAILERS' EXCISE TAXES.

(a) IMPOSITION OF TAX.—The Internal Revenue Code is amended by adding after chapter 18 the following new chapter:

"CHAPTER 19—RETAILERS' EXCISE TAXES

"SEC. 2400. TAX ON JEWELRY, ETC.

"There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 per centum of the price for which so sold: All articles commonly or commercially known as jewelry, whether real or imitation; pearls, precious and semi-precious stones, and imitations thereof; articles made of, or ornamented, mounted or fitted with, precious metals or imitations thereof; watches and clocks and cases and movements therefor; gold, gold-plated, silver, silver-plated or sterling flatware or hollow ware; opera glasses; lorgnettes; marine glasses; field glasses; and binoculars. The tax imposed by this section shall not apply to any article used for religious purposes, to surgical instruments, or to frames or mountings for spectacles or eyeglasses, or to a fountain pen if the only parts of the pen which consist of precious metals are essential parts not used for ornamental purposes.

"SEC. 2401. TAX ON FURS.

"There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 per centum of the price for which so sold: Articles made of fur on the hide or pelt, and articles of which such fur is the component material of chief value.

"SEC. 2402. TAX ON TOILET PREPARATIONS.

"(a) TAX.—There is hereby imposed upon the following articles sold at retail a tax equivalent to 10 per centum of the price for which so sold: Perfumes, essences, extracts, toilet waters, cosmetics, petroleum jellies, hair oils, pomades, hair dressings, hair restoratives, hair dyes, aromatic cachous, toilet powders, and any similar substance, article, or preparation, by whatsoever name known or distinguished; any of the above which are used or applied or intended to be used or applied for toilet purposes.

"(b) BEAUTY PARLORS, ETC.—For the purposes of subsection (a) the sale of any article described in subsection (a) to any person operating a barber shop, beauty parlor, or similar establishment shall be considered a sale at retail; resale by such person shall be subject to tax as a sale at retail, but there shall be credited against the tax payable by such person with respect to such resale the amount of tax paid on the sale to such person.

"SEC. 2403. RETURN AND PAYMENT OF RETAILERS' EXCISE TAXES.

"(a) Every person who sells at retail any article taxable under this chapter shall make monthly returns under oath in duplicate and pay the taxes imposed by this chapter to the collector for the district in which is located his principal place of business or, if he has no principal place of business in the United States, then to the collector at Baltimore, Maryland. Such returns shall contain such information and be made at such times and in such manner as the Commissioner, with the approval of the Secretary, may by regulations prescribe.

"(b) The tax shall, without assessment by the Commissioner or notice from the collector, be due and payable to the collector at the time so fixed for filing the return. If the tax is not paid when due, there shall be added as part of the tax interest at the rate of 6 per centum per annum from the time when the tax became due until paid.

"(c) In determining, for the purposes of this chapter, the price for which an article is sold, there shall be included any charge for coverings and containers of whatever nature, and any charge incident to placing the article in condition packed ready for shipment, but there shall be excluded the amount of tax imposed by this chapter, whether or not stated as a separate charge. A transportation, delivery, insurance, installation, or other charge (not required by the foregoing sentence to be included) shall be excluded from the price only if the amount thereof is established to the satisfaction of the Commissioner, in accordance with the regulations. There shall also be excluded, if stated as a separate charge, the amount of any retail sales tax imposed by any State or Territory or political subdivision

of the foregoing, or the District of Columbia, whether the liability for such tax is imposed on the vendor or the vendee.

"SEC. 2404. DEFINITION OF SALE.

"For the purposes of this chapter, the lease of an article shall be considered the sale of such article.

"SEC. 2405. LEASES, CONDITIONAL SALES, ETC.

"In the case of (a) a lease, (b) a contract for the sale of an article wherein it is provided that the price shall be paid by installments and title to the article sold does not pass until a future date notwithstanding partial payment by installments, or (c) a conditional sale, there shall be paid upon each payment with respect to the article that portion of the total tax which is proportionate to the portion of the total amount to be paid represented by such payment. No tax shall be imposed under this chapter on the sale of any article taxable under section 2400 or section 2401 if with respect to such article the lease, contract for sale, or conditional sale was made, delivery thereunder was made, and a part of the consideration was paid, before October 1, 1941.

"SEC. 2406. TAX-FREE SALES.

"Under regulations prescribed by the Commissioner with the approval of the Secretary, no tax under this chapter shall be imposed with respect to the sale of any article—

"(a) for the exclusive use of the United States, any State, Territory of the United States, or any political subdivision of the foregoing, or the District of Columbia;

"(b) for export, or for shipment to a possession of the United States, and in due course so exported or shipped.

"SEC. 2407. CREDITS AND REFUNDS.

"(a) A credit against tax under this chapter, or a refund, may be allowed with respect to an article, when the price on which the tax was based is readjusted by reason of return or repossession of the article, or by a bona fide discount, rebate, or allowance, in the amount of that part of the tax proportionate to the part of the price which is refunded or credited.

"(b) No overpayment of tax under this chapter shall be credited or refunded, in pursuance of a court decision or otherwise, unless the person who paid the tax establishes, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, (1) that he has not included the tax in the price of the article with respect to which it was imposed, or collected the amount of tax from the purchaser, or (2) that he has repaid the amount of the tax to the purchaser of the article, or unless he files with the Commissioner written consent of such purchaser to the allowance of the credit or refund.

"SEC. 2408. APPLICABILITY OF ADMINISTRATIVE PROVISIONS.

"All provisions of law (including penalties) applicable in respect of the taxes imposed by section 2700 shall, insofar as applicable and

not inconsistent with this chapter, be applicable in respect of the taxes imposed by this chapter.

"SEC. 2409. PENALTY FOR REPRESENTATION THAT TAX IS NOT PASSED ON.

"Whoever in connection with the sale or lease, or offer for sale or lease, of any article taxable under this chapter, makes any statement, written or oral, in advertisement or otherwise, intended or calculated to lead any person to believe that the price of the article does not include the tax imposed by this chapter, shall on conviction thereof be punished by a fine of not more than $1,000.

"SEC. 2410. RULES AND REGULATIONS.

"The Commissioner, with the approval of the Secretary, shall prescribe and publish all needful rules and regulations for the enforcement of this chapter.

"SEC. 2411. EFFECTIVE DATE.

"This chapter shall be effective on and after October 1, 1941."

(b) TERMINATION OF MANUFACTURERS' TAX ON TOILET PREPARATIONS.—The tax imposed by section 3401 of the Internal Revenue Code shall not apply to articles sold on or after October 1, 1941.

SEC. 553. ADMINISTRATIVE CHANGES IN MANUFACTURERS' EXCISE TAX TITLE OF CODE.

(a) LEASES.—Section 3440 of the Internal Revenue Code is amended to read as follows:

"SEC. 3440. DEFINITION OF SALE.

"For the purposes of this chapter the lease of an article (including any renewal or any extension of a lease or any subsequent lease of such article) by the manufacturer, producer, or importer shall be considered a taxable sale of such article."

(b) EXISTING CONTRACTS.—Chapter 29 of the Internal Revenue Code is amended by adding at the end thereof the following new section:

"SEC. 3453. EXISTING CONTRACTS.

"(a) TAX PAYABLE BY VENDEE.—If (1) any person has, prior to the effective date of Part V of Title V of the Revenue Act of 1941, made a bona fide contract for the sale on or after such date, of any article with respect to the sale of which a tax is imposed by that Act or an existing rate of tax is increased by that Act, and (2) such contract does not permit the adding to the amount to be paid under such contract of the whole of such tax or increased rate of tax, then (unless the contract prohibits such addition) the vendee shall, in lieu of the vendor, pay so much of the tax as is not so permitted to be added to the contract price.

"(b) TAX PAID TO VENDOR.—Taxes payable by the vendee shall be paid to the vendor at the time the sale is consummated, and shall

be collected and paid to the United States by the vendor in the same manner as provided in section 3467. In case of failure or refusal by the vendee to pay such taxes to the vendor, the vendor shall report the facts to the Commissioner who shall cause collection of such taxes to be made from the vendee."

(c) UNEXPOSED MOTION PICTURE FILMS.—Section 3443 (a) (3) (A) of the Internal Revenue Code (relating to credits or refunds of tax to manufacturer) is amended by inserting at the end thereof the following new clause:

"(v) in the case of unexposed motion picture films, used or resold for use in the making of news reel motion picture films."

(d) CREDITS, AND TAX FREE SALES OF AUTOMOBILE RADIOS.—Section 3442, section 3443 (a) (1), and section 3444 (a) (1) and (2) of the Internal Revenue Code (relating to tax in case of sale of tires to manufacturers of automobiles, etc., and credit on sale) are amended by striking out "tires or inner tubes" wherever appearing therein and inserting "tires, inner tubes, or automobile radios taxable under section 3404"; and by striking out "tire or inner tube" wherever appearing therein and inserting "tire, inner tube, or automobile radio taxable under section 3404". Section 3403 (e) of the Internal Revenue Code, as amended by this Act, is further amended by striking out "tires and inner tubes" where the phrase appears the first time and inserting "tires, inner tubes, or automobile radios"; paragraph (1) of subsection (e) of such section is amended by inserting before the semicolon "or, in the case of automobile radios, if such radios were taxable under section 3404"; paragraph (2) of subsection (e) of such section is amended by striking out "tires or inner tubes" wherever such phrase appears and inserting "tires, inner tubes, or automobile radios".

SEC. 554. TRANSPORTATION OF PERSONS, ETC.

(a) The heading of subchapter C is amended to read as follows:

"SUBCHAPTER D—ADMINISTRATIVE PROVISIONS".

(b) Chapter 30 of the Internal Revenue Code is amended by inserting after section 3468 the following new subchapter:

"SUBCHAPTER C—TRANSPORTATION OF PERSONS

"SEC. 3469. TAX ON TRANSPORTATION OF PERSONS, ETC.

"(a) TRANSPORTATION.—There shall be imposed upon the amount paid within the United States, on or after October 10, 1941, for the transportation, on or after such effective date, of persons by rail, motor vehicle, water, or air, within or without the United States, a tax equal to 5 per centum of the amount so paid. Such tax shall apply to transportation by motor vehicles having a passenger seating capacity of less than ten adult passengers, including the driver, only when such vehicle is operated on an established line.

"(b) EXEMPTION OF CERTAIN TRIPS.—The tax imposed by subsection (a) shall not apply to amounts paid for transportation which do not exceed 35 cents, to amounts paid for commutation or season

tickets for single trips of less than thirty miles, or to amounts paid for commutation tickets for one month or less.

"(c) SEATS, BERTHS, ETC.—There shall be imposed upon the amount paid within the United States for seating or sleeping accommodations in connection with transportation with respect to which a tax is imposed by subsection (a) a tax equivalent to 5 per centum of the amount so paid.

"(d) RETURNS AND PAYMENT.—The taxes imposed by this section shall be paid by the person making the payment subject to the tax. Each person receiving any payment specified in subsection (a) or (c) shall collect the amount of the tax imposed from the person making such payment, and shall, on or before the last day of each month, make a return, under oath, for the preceding month, and pay the taxes so collected to the collector in the district in which his principal place of business is located, or if he has no principal place of business in the United States, to the collector at Baltimore, Maryland. Such returns shall contain such information and be made in such manner as the Commissioner with the approval of the Secretary may by regulations prescribe.

"(e) EXTENSIONS OF TIME.—The Commissioner may extend the time for making returns and paying the taxes collected, under such rules and regulations as he shall prescribe with the approval of the Secretary, but no such extension shall be for more than ninety days.

"(f) EXEMPTIONS.—

"(1) GOVERNMENTAL EXEMPTION.—The tax imposed by this section shall not apply to the payment for transportation or facilities furnished to the United States, or to any State or Territory, or political subdivision thereof, or the District of Columbia.

"(2) EXEMPTION OF MEMBERS OF MILITARY AND NAVAL SERVICE.—The tax imposed by this section shall not apply to the payment for transportation or facilities furnished under special tariffs providing for fares of not more than 1¼ cents per mile applicable to round trip tickets sold to personnel of the United States Army, Navy, Marine Corps, and Coast Guard traveling in uniform of the United States at their own expense when on official leave, furlough, or pass, including authorized cadets and midshipmen, issued on presentation of properly executed certificate."

(c) STAMP TAX ON PASSAGE TICKETS NOT TO APPLY.—No tax shall be imposed under chapter 11 of the Internal Revenue Code on a ticket sold or issued for passage the amount paid for which is taxable under section 3469 of the Internal Revenue Code.

(d) TECHNICAL AMENDMENTS.—

(1) Section 55 (a) (2) of the Internal Revenue Code is amended by striking out "subchapters A and B of".

(2) Section 3471 (a) and (c) are amended by inserting after "subchapter B" wherever occurring therein "or subchapter C".

(3) Section 3472 of the Internal Revenue Code is amended by striking out "of subchapters A and B".

SEC. 555. COIN-OPERATED AMUSEMENT AND GAMING DEVICES.

Subchapter A of chapter 27 of the Internal Revenue Code is amended by adding at the end thereof the following new part:

"Part IX—Coin-Operated Amusement and Gaming Devices

"SEC. 3267. TAX ON COIN-OPERATED AMUSEMENT AND GAMING DEVICES.

"(a) RATE.—Every person who maintains for use or permits the use of, on any place or premises occupied by him, a coin-operated amusement or gaming device shall pay a special tax as follows:

"(1) $10 per year in the case of a device defined in clause (1) of subsection (b);

"(2) $50 per year, in the case of a device defined in clause (2) of subsection (b); and

"(3) $10 or $50, as the case may be, for each additional device so maintained or the use of which is so permitted. If one such device is replaced by another, such other device shall not be considered an additional device.

"(b) DEFINITION.—As used in this part the term 'coin-operated amusement and gaming devices' means (1) so-called 'pin-ball' and other similar amusement machines, operated by means of the insertion of a coin, token, or similar object, and (2) so-called 'slot' machines which operate by means of insertion of a coin, token, or similar object and which, by application of the element of chance, may deliver, or entitle the person playing or operating the machine to receive, cash, premiums, merchandise, or tokens. The term does not include bona fide vending machines in which are not incorporated gaming or amusement features.

"(c) APPLICABILITY OF ADMINISTRATIVE PROVISIONS.—An operator of a place or premises who maintains for use or permits the use of any coin-operated device shall be considered, for the purposes of subchapter B, to be engaged in a trade or business in respect of each such device.

"(d) EFFECTIVE DATE OF TAX.—With respect to the year ending June 30, 1942, no tax shall be payable under this part for any period prior to October 1, 1941."

SEC. 556. BOWLING ALLEYS, ETC.

Subchapter A of chapter 27 of the Internal Revenue Code is amended by adding at the end thereof the following new part:

"Part X—Bowling Alleys, and Billiard and Pool Tables

"SEC. 3268. TAX ON BOWLING ALLEYS, AND BILLIARD AND POOL TABLES.

"(a) RATE.—Every person who operates a bowling alley, billiard room, or pool room shall pay a special tax of $10 per year for each bowling alley, billiard table, or pool table. Every building or place where bowls are thrown or where games of billiards or pool are played, except in private homes, shall be regarded as a bowling alley, billiard room, or pool room, respectively.

"(b) EFFECTIVE DATE OF TAX.—With respect to the year ending June 30, 1942, no tax shall be payable under this part for any period prior to October 1, 1941."

SEC. 557. USE OF MOTOR VEHICLES AND BOATS.

The Internal Revenue Code is amended by inserting after chapter 33 the following new chapter:

"CHAPTER 33A—USE OF MOTOR VEHICLES AND BOATS

"SEC. 3540. TAX ON USE OF MOTOR VEHICLES AND BOATS.

"(a) IMPOSITION OF TAX.—There shall be imposed upon the use of motor vehicles and boats a tax, with respect to each year in which such use occurs, at the following rates:

"(1) Motor vehicles—$5.

"(2) BOATS.—

"Over-all length 16 feet or over but not over 28 feet, $5.
"Over-all length over 28 feet but not over 50 feet, $10.
"Over-all length over 50 feet but not over 100 feet, $40.
"Over-all length over 100 feet but not over 150 feet, $100.
"Over-all length over 150 feet but not over 200 feet, $150.
"Over-all length over 200 feet, $200.

Such tax, in the case of a motor vehicle, shall be paid by the person in whose name the motor vehicle is, or is required to be, registered under the law of the State, Territory, or the District of Columbia in which such motor vehicle is, or is required to be, registered. Such tax, in the case of a boat, shall be paid by the owner of the boat. The tax imposed by this section shall not apply to any use before February 1, 1942, and use before such date shall not be considered to be use within the meaning of this section.

"(b) DEFINITIONS.—For the purposes of this section—

"(1) The term 'year' means the year beginning July 1.

"(2) The term 'motor vehicle' means all motor vehicles of the kind chiefly used for highway transportation.

"(3) The term 'boat' means all boats propelled by machinery, sail, or both, measuring sixteen feet or more in over-all length, owned by a citizen or resident of the United States. Such term does not include boats used chiefly for trade, or commercial fishing, or boats used without profit by any benevolent, charitable, or religious organization exclusively for furnishing aid, comfort, or relief to seamen, or boats used by the sea scouts department of the Boy Scouts of America chiefly for training scouts in seamanship.

"(4) The term 'use' in the case of the use of a motor vehicle means use on the public highways.

"(c) PRORATION OF TAX.—If in any year the first use of the motor vehicle or boat is after July 31 the tax shall be reckoned proportionately from the first day of the month in which such use occurs to and including the 30th day of June following.

"(d) ONE PAYMENT PER YEAR.—If the tax imposed by this section is paid with respect to any motor vehicle or boat for any year no further tax shall be imposed for such year with respect to such motor vehicle or boat.

"(e) EVIDENCE OF TAX PAYMENT.—The payment of the tax imposed by this section shall be evidenced by such suitable stamp, sticker, or tag of such form, which shall be affixed to the motor vehicle or

boat in such manner, as the Commissioner, with the approval of the Secretary, may by regulations prescribe.

"(f) Manner of Collection.—The place, time, and manner of making payment of the tax, and of furnishing such stamp, sticker, or tag shall be such as may be provided in regulations prescribed by the Commissioner with the approval of the Secretary.

"(g) Cooperation of Post Office Department.—The Commissioner shall furnish to the Postmaster General without prepayment a suitable quantity of stamps, stickers, or tags to be distributed to and kept on sale by postmasters in the United States. The Postmaster General may require each such postmaster to give additional or increased bond as postmaster for the value of the stamps, stickers, or tags furnished to him, and each such postmaster shall deposit the receipts from the sale of such stamps, stickers, or tags to the credit of and render accounts to the Postmaster General at such times and in such form as he may by regulations prescribe. The Postmaster General shall at least once monthly transfer all collections from this source to the Treasury as internal-revenue collections. The Postmaster General is authorized to cooperate to the fullest extent possible with the Commissioner in the sale of such stamps, stickers, or tags and in forwarding to the Commissioner or to the collector of internal revenue such blanks or forms as the Commissioner may determine necessary to the collection of the tax. There are authorized to be appropriated such sums as may be necessary to enable the Secretary of the Treasury to advance from time to time to the Postmaster General such sums as the Postmaster General may show shall be required for the expenses of the Post Office Department in performing in the District of Columbia and elsewhere all services required by this section.

"(h) Sale of Stamps by Private Persons.—If the Commissioner provides for the sale of stamps, stickers, or tags by persons not officers or employees of the United States he may require bond, with sufficient sureties, in a sum to be fixed by the Commissioner, conditioned for the faithful return, whenever required, of all quantities or amounts undisposed of, and for the payment for, all quantities or amounts sold or not remaining on hand. The Commissioner, with the approval of the Secretary, may from time to time make such regulations as he may find necessary to insure the safekeeping or prevention of illegal use of all such stamps, stickers, or tags.

"(i) Penalties for Unlawful Use.—Any person liable for the tax under this section who uses or permits the use of the motor vehicle or boat before tax has been paid shall be guilty of a misdemeanor and upon conviction thereof shall be fined not more than $25 or imprisoned for not more than thirty days, or both. Any person who uses or operates a motor vehicle or boat at a time when the stamp, sticker, or tag does not appear on the motor vehicle or boat in the manner provided in the regulations prescribed under subsection (e) or (f) shall be guilty of a misdemeanor and upon conviction thereof shall be fined not more than $25.

"(j) Exempt Uses.—The tax imposed by this section shall not apply to the use of a motor vehicle or boat by the United States, a State, Territory, the District of Columbia, or a political subdivision of any of the foregoing."

SEC. 558. EFFECTIVE DATE OF PART V.

This part shall take effect on October 1, 1941.

Part VI—Processing Tax on Certain Oils

SEC. 561. PAYMENT OF PROCEEDS OF PROCESSING TAX TO GUAM AND AMERICAN SAMOA.

(a) PAYMENT TO POSSESSIONS.—Chapter 21 of the Internal Revenue Code (relating to processing tax on oils) is amended by adding at the end thereof the following new section:

"SEC. 2483. All taxes collected under this chapter with respect to coconut oil wholly of the production of Guam or American Samoa or produced from materials wholly of the growth or production of Guam or American Samoa, shall be held as separate funds and paid to the Treasury of Guam or American Samoa, respectively. No part of the money from such funds shall be used, directly or indirectly, to pay a subsidy to the producers or processors of copra, coconut oil, or allied products, except that this sentence shall not be construed as prohibiting the use of such money, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, for the acquisition or construction of facilities for the better curing of copra or for bona fide loans to copra producers of Guam or American Samoa."

(b) EFFECTIVE DATE OF AMENDMENT.—The amendment made by this section shall be applicable only with respect to taxes collected after the date of enactment of this Act.

TITLE VI—NONESSENTIAL FEDERAL EXPENDITURES

SEC. 601. NONESSENTIAL FEDERAL EXPENDITURES.

(a) There is hereby established a committee to investigate Federal expenditures (hereinafter referred to as the "committee"), to be composed of (1) three members of the Senate Committee on Finance and three members of the Senate Committee on Appropriations, to be appointed by the President of the Senate; (2) three members of the House Committee on Ways and Means and three members of the House Committee on Appropriations, to be appointed by the Speaker of the House of Representatives; and (3) the Secretary of the Treasury, and the Director of the Bureau of the Budget. A vacancy in the committee shall not affect the power of the remaining members to execute the functions of the committee, and shall be filled in the same manner as the original selection. A majority of the committee shall constitute a quorum, and the powers conferred upon them by this section may be exercised by a majority vote.

(b) It shall be the duty of the committee to make a full and complete study and investigation of all expenditures of the Federal Government with a view to recommending the elimination or reduction of all such expenditures deemed by the committee to be nonessential. The committee shall report to the President and to the Congress the results of its study, together with its recommendations, at the earliest practicable date.

(c) The committee, or any duly authorized subcommittee thereof, is authorized to hold such hearings, to sit and act at such times and places, to employ such experts and such clerical and other assistants, to require by subpena or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, to take such testimony, and to make such expenditures, as it deems advisable. The provisions of sections 102 to 104, inclusive, of the Revised Statutes shall apply in case of any failure of any witness to comply with any subpena, or to testify when summoned under the authority of this section.

(d) The committee is authorized to utilize the services, information, facilities, and personnel of the departments and agencies of the Government.

(e) There is hereby authorized to be appropriated, the sum of $10,000, or so much thereof as may be necessary, to carry out the provisions of this section.

(f) All authority conferred by this section shall terminate upon the submission of the committee's final report.

SEC. 602. Section 1303 of the Revenue Act of 1918, as amended, is amended by striking out "President of the Senate" wherever it appears therein and inserting in lieu thereof "President pro tempore of the Senate".

TITLE VII—CREDIT AGAINST FEDERAL UNEMPLOYMENT TAXES

SEC. 701. CREDIT AGAINST FEDERAL UNEMPLOYMENT TAXES.

(a) ALLOWANCE OF CREDIT AGAINST TAX FOR 1936, 1937, AND 1938.—Against the tax imposed by section 901 of the Social Security Act for the calendar year 1936, 1937, or 1938, any taxpayer shall be allowed credit (if credit is not allowable under section 902 of such Act) for the amount of contributions paid by him into an unemployment fund under a State law—

(1) Before the sixtieth day after the date of the enactment of this Act, if such credit is claimed before the expiration of six months after such date of enactment;

(2) Without regard to the date of payment, with respect to wages paid after September 19, 1939;

(3) Without regard to the date of payment, if the assets of the taxpayer are, at any time during the fifty-nine-day period following such date of enactment, or were at any time during the period August 11, 1939, to October 8, 1939, inclusive, or the period October 9, 1940, to December 6, 1940, inclusive, in the custody or control of a receiver, trustee, or other fiduciary appointed by, or under the control of, a court of competent jurisdiction.

The provisions of the Social Security Act in force prior to February 11, 1939 (except the provision limiting the credit to amounts paid before the date of filing returns), shall apply to allowance of credit under this subsection; except that the amount of credit against the tax for the calendar year 1936, 1937, or 1938, for contributions paid after December 6, 1940, shall not (unless the credit is allowable on account of paragraph (2) or (3)) exceed 90 per centum of the amount which would have been allowable as credit on account of such con-

tributions had they been paid before the last day upon which the taxpayer was required under section 905 of such Act to file a return for such year. The terms used in this subsection shall have the same meaning as when used in title IX of such Act prior to February 11, 1939. The total credit allowable against the tax imposed by section 901 of such Act for the calendar year 1936, 1937, or 1938 shall not exceed 90 per centum of such tax.

(b) ALLOWANCE OF CREDIT AGAINST TAX FOR 1939 AND 1940.—Against the tax imposed by the Federal Unemployment Tax Act for the calendar year 1939 or 1940, any taxpayer shall be allowed credit (if credit is not allowable under section 1601 of such Act) for the amount of contributions paid by him into an unemployment fund under a State law—

(1) Before the sixtieth day after the date of the enactment of this Act, if such credit is claimed before the expiration of six months after such date of enactment;

(2) Without regard to the date of payment, if the assets of the taxpayer are, at any time during the fifty-nine-day period following such date of enactment, or were at any time during the period from the last day upon which the taxpayer was required under section 1604 of the Federal Unemployment Tax Act to file a return of the tax against which credit is claimed to June 30 next following such last day, inclusive, or (in the case of credit against the tax for the calendar year 1939) the period October 9, 1940, to December 6, 1940, inclusive, in the custody or control of a receiver, trustee, or other fiduciary appointed by, or under the control of, a court of competent jurisdiction.

The provisions of the Federal Unemployment Tax Act (except section 1601 (a) (3)), including such provisions as modified by section 902 (e) of the Social Security Act Amendments of 1939, shall apply to allowance of credit under this subsection. The amount of such credit against the tax for the calendar year 1939 or 1940, in the case of contributions paid after the last day upon which the taxpayer was required under section 1604 of the Federal Unemployment Tax Act to file a return for such year, shall not (unless the credit is allowable on account of paragraph (2)) exceed 90 per centum of the amount which would have been allowable as credit on account of such contributions had they been paid on or before such last day. The terms used in this subsection shall have the same meaning as when used in the Federal Unemployment Tax Act. The total credit allowable against the tax imposed by such Act for the calendar year 1939 or 1940 shall not exceed 90 per centum of such tax.

(c) REFUND.—Refund, credit, or abatement of the tax (including penalty and interest assessed or collected with respect thereto, if any), based on any credit allowable under subsection (a) or (b), may be made in accordance with the provisions of law applicable in the case of erroneous or illegal assessment or collection of the tax (including statutes of limitations). No interest shall be allowed or paid on the amount of any such credit or refund. On and after the date of the enactment of this Act no refund, credit, or abatement shall be allowed based on any credit allowable under section 810 of the Revenue Act of 1938, section 902 (a) of the Social Security Act Amendments of 1939, or section 701 of the Second Revenue Act of 1940.

Approved, Sept. 20, 12.15 p. m. E. S. T., 1941

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